



MONETARY POLICY REPORT

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TABLE OF CONTENTS

FOREWORD

| | |
|---|----|
| PRESS RELEASE | 7 |
| OVERVIEW | 10 |
| 1. INTERNATIONAL DEVELOPMENTS | 16 |
| 1.1 Economic activity and employment | 16 |
| 1.2 Monetary and financial conditions | 17 |
| 1.3 Commodity prices and inflation | 19 |
| 2. EXTERNAL ACCOUNTS | 23 |
| 2.1 Trade balance | 23 |
| 2.2 Other components of the current account balance | 25 |
| 2.3 Financial account | 26 |
| 3. MONEY, CREDIT AND ASSET MARKETS | 27 |
| 3.1 Monetary conditions | 27 |
| 3.2 Asset prices | 31 |
| 4. FISCAL POLICY STANCE | 35 |
| 4.1 Current receipts | 35 |
| 4.2 Expenditure | 36 |
| 4.3 Treasury deficit and financing | 38 |
| 5. DEMAND, SUPPLY AND LABOR MARKET | 40 |
| 5.1 Domestic demand | 40 |
| 5.2 Foreign demand | 41 |
| 5.3 Overall supply | 41 |
| 5.4 Labor market and output capacity | 41 |
| 6. RECENT INFLATION TRENDS | 44 |
| 6.1 Inflation trends | 44 |
| 6.2 Short-term outlook for inflation | 46 |
| 6.3 Inflation expectations | 47 |
| 6.4 Producer prices | 48 |
| 7. MEDIUM-TERM OUTLOOK | 49 |
| Summary | 49 |
| 7.1 Underlying assumptions | 51 |
| 7.2 Macroeconomic projections | 54 |
| 7.3 Balance of risks | 59 |
| LIST OF ABBREVIATIONS | 60 |
| LIST OF CHARTS | 61 |
| LIST OF TABLES | 63 |
| LIST OF BOXES | 63 |



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FOREWORD

According to the provisions of Article 6 of Law No. 40-17 on the Statute of Bank Al-Maghrib, promulgated by Dahir No. 1-19-82 of 17 Chaoual 1440 (June 21, 2019), “the Bank defines and conducts the monetary policy in full transparency and within the framework of the economic and financial policy of the Government. The Bank’s primary objective is to maintain price stability.”

This stability helps preserving citizens’ purchasing power, encourages investment and boosts growth. Price stability does not mean zero inflation; rather, it refers to keeping it at a moderate and stable level over the medium term. To achieve such objectives, the Bank intervenes in the money market using the appropriate instruments, mainly the key policy rate and the reserve requirement.

Monetary policy decisions are transmitted to the economy, particularly through their impacts on interest rates across various markets, the expectations of economic units and on the asset prices, whose change affects overall demand for goods and services and, eventually, inflation. Since these impacts do not materialize until after a certain time period, forecasts play an important role in monetary policy formulating and decision-making. They are thus produced by the Bank for an eight-quarter horizon on the basis of an integrated analysis and forecasting framework articulated around a central monetary policy model, itself supplied and supplemented by several satellite models. The central forecasting model used is of the semi-structural New-Keynesian one, which relies both on the theoretical underpinnings underlying general-equilibrium models and on the adjustment to data characterizing the empirical models.

With a view to ensuring transparency of monetary policy decisions, the Bank, after each Board meeting, issues a press release, and the Governor holds a press conference where he reviews the decision and explains its foundations. In addition, the Bank prepares and publishes on its website the quarterly Monetary Policy Report, which outlines all the analyses underlying its decisions. This report, which starts with an overview summing up recent economic, monetary and financial developments as well as the macroeconomic projections, includes two parts. The first part, consisting of six chapters, describes the recent economic developments, namely with regard to: (i) international developments; (ii) external accounts; (iii) money, credit and asset markets; (iv) the stance of fiscal policy; (v) demand, supply and the labor market; and (vi) inflation. The second part is devoted to presenting the medium-term outlook for the national economy, the risks surrounding it and the main underlying hypotheses.

Members of the Board of Bank Al-Maghrib (Article 26 of the Bank’s Statute)
The Governor, Chairman,

The Director General

Director of Treasury and External Finance, Representative of the Ministry in charge of Finance

Mrs. Mouna CHERKAoui

Mr Mohammed DAIRI

Mrs Najat EL MEKKAoui

Mr. Larabi JAÏDI

Mr Mustapha MOUSSAOUI

Mr. Fathallah OUALALOU

The Government Representative shall also attend the meetings of the Board, by virtue of Article 41.

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 25, 2024

1. The Board of Bank Al-Maghrib held its second quarterly meeting of 2024 on Tuesday, June 25.
2. During this meeting, the Board first examined and approved the annual report on the country's economic, monetary, and financial situation, as well as the Bank's activities for the 2023 fiscal year. Subsequently, the Board analyzed the national and international economic developments, as well as the medium-term macroeconomic projections of Bank Al-Maghrib.
3. At the international level, the Board noted the relative resilience of the economic activity and the decline in inflationary pressures, which is set to continue, albeit at a slower pace than last March forecast. These prospects remain, however, surrounded by a high level of uncertainty, particularly in view of the ongoing geopolitical tensions and conflicts in Ukraine and in the Middle East.
4. At the domestic level, the annual national accounts released by the High Commission for Planning for 2023 show a faster pace of non-agricultural activity compared with quarterly data for the same year, and a marked improvement in household consumption. Taking into account the available high frequency indicators, this information augurs a relatively higher path of non-agricultural growth, likely to be underpinned by the expected momentum in both public and private investment over the medium term.
5. After reaching 6.6 percent in 2022 and 6.1 percent in 2023, domestic inflation returned to low levels in recent months, mainly driven by easing external pressures and lower prices of volatile food products. Considering these data and the resumption of the process of subsidies removal, inflation should end the current year with an average of 1.5 percent, before rising to 2.7 percent in 2025. Its underlying component, which reflects the fundamental price trend, averaged 2.1 percent over the first five months of the year and should remain close to this level until end-2025.
6. The Board also noted the firm anchoring of inflation expectations as reflected in Bank AlMaghrib's quarterly survey of financial sector experts' data. Inflation expectations declined significantly in the second quarter, standing at 2.7 percent for the 8-quarter horizon and to 2.8 percent for the 12-quarter horizon.
7. As for the transmission of previous monetary policy decisions to financial conditions, bank lending rates remained roughly stable for the second consecutive quarter, with a cumulative increase of 116 bp between the start of the monetary tightening in September 2022 and the first quarter of 2024. The rise in rates affected corporate customers more than individuals and was less significant for VSMEs than for large companies.
8. In view of these considerations, the Board assessed that the calibrated tightening of monetary policy, the regular monitoring of the transmission of its decisions and the measures rolled out by the Government to support household purchasing power and some economic activities allowed for considerable progress in steering inflation back to levels consistent with the price stability objective and in maintaining the post-covid recovery. Against this backdrop, and after keeping the key rate unchanged for four consecutive meetings, the Board decided to lower it by 25 basis points to 2.75 percent.

9. The Board will continue to closely monitor economic conditions and inflation both at the national and international level.
10. On the commodity markets, oil prices are set to rise slightly from an average of USD82.2/barrel of Brent in 2023 to USD84.7/barrel in 2024 and USD86/barrel in 2025, supported by increasing global demand and prolonged OPEC+ production cutbacks. As for Moroccan phosphate and its derivatives, according to Commodities Research Unit projections, DAP price will decrease from USD591/t in 2023 to USD564/t in 2024, mainly reflecting lower input costs, but should hover in 2025 at levels close to those recorded in 2023. Crude phosphate prices are likely to continue falling, from USD271/t in 2023 to USD230/t in 2024, then to USD212/t in 2025. As regard to food prices, after the 13.7 percent contraction observed in 2023, the FAO index should fall by 4.6 percent in 2024, before rising by 4.3 percent in 2025.
11. Under these conditions, inflation should continue to decelerate over the medium term, declining worldwide from 4.7 percent in 2023 to 3.5 percent in 2024, then to 3.1 percent in 2025. It is projected to slow respectively from 5.4 percent to 2.5 percent then 2.2 percent in the Euro area and from 4.1 percent to 3.3 percent then 2.7 percent in the USA.
12. In terms of monetary policy, central banks of the main advanced and emerging economies have adopted relatively divergent stances, with some starting an easing process while others keeping their key rates unchanged. Against a backdrop of decelerating inflation, the ECB decided, at its June 6 meeting, to lower its three key rates by 25bp, after maintaining them unchanged for 5 consecutive meetings. As for the FED, it held its target range unchanged for the seventh time in a row at [5.25 percent-5.50 percent] at its June 11 and 12 meeting, amid sustained favorable labor market conditions and modest progress towards the inflation target.
13. Regarding the outlook for the global economy, growth is set to decelerate, albeit less rapidly than last March forecast. In the United States, following a remarkable resilience in 2023, GDP is expected to rise by 2.1 percent this year, then by 1.4 percent in 2025, mainly reflecting a slowdown in consumer spending. In the Euro Area, growth is set to accelerate, although remaining sluggish this year, mainly due to difficulties in the German manufacturing sector and to fiscal consolidation. Growth is thus set to rise from 0.5 percent in 2023 to 0.9 percent in 2024, then to 1.8 percent in 2025. In main emerging markets, the Chinese economy is likely to continue suffering from difficulties in its real estate market, high levels of local government debt and the announced increase in US custom duties. Its growth should reach the 5 percent target this year, driven, in part, by stronger foreign demand, but would then decelerate to 4.8 percent in 2025. In contrast, the Indian economy should remain robust over the medium term, boosted by public investment, with GDP growing by 6.8 percent in 2024 and 6.6 percent in 2025.
14. Domestically, economic growth accelerated from 1.5 percent in 2022 to 3.4 percent in 2023, as a result of a 3.5 percent improvement, after 3.4 percent, in non-agricultural value added, as well as a slight recovery by 1.4 percent, after a contraction of 11.3 percent in agricultural value added. In the medium term, non-agricultural activities are expected to strengthen at rates of 3.8 percent in 2024 and 4.1 percent in 2025, thanks particularly to the various projects launched and scheduled, the continued momentum of tourism-related activities, and the consolidation of household consumption in line with inflation slowdown and wage increases. However, agricultural production would remain

dependent on climate conditions. Thus, considering a cereal crop estimated by the Department of Agriculture at 31.2 million quintals, agricultural value added would fall by 6.9 percent this year, before rebounding by 8.6 percent in 2025, assuming a return to an average cereal harvest of 55 million quintals. Overall, national economic growth would return to 2.8 percent in 2024, before accelerating to 4.5 percent in 2025.

15. On the external accounts side, after a virtual stagnation in 2023, exports of goods are set to improve by 4.4 percent in 2024 and 8.9 percent in 2025, mainly driven by sales in the automotive sector and phosphates and derivatives, which are expected to reach 185.1 billion and 88.5 billion dirhams respectively in 2025. At the same time, and after a 2.9 percent decline in 2023, imports would rise by 6.1 percent and then 9.7 percent, mainly due to an increase in purchases of capital and consumer goods, while the energy bill would ease this year, followed by a rise of almost 5 percent in 2025 to 125.1 billion dirhams. Travel revenues would continue to perform well, with annual increases of 5.8 percent to stand at 117.2 billion in 2025. Similarly, available data indicate a continuation of the upward trend in remittances, with improvements of 1.9 percent this year and 5.3 percent in 2025 to 123.7 billion dirhams. Under these conditions, and after an exceptional easing to 0.6 percent of GDP in 2023, the current account deficit would hover around 1.7 percent of GDP in 2024 and 2.7 percent in 2025. Furthermore, FDI receipts, after a relatively low level in 2023 equivalent to 2.4 percent of GDP, would strengthen to almost 3.1 percent of GDP in 2024 and 2025. Finally, considering the forecast of the Treasury's external financing, official reserve assets would continue to strengthen, reaching 382 billion dirhams by the end of 2024 and 395.6 billion dirhams by the end of 2025, representing a coverage of around 5.5 months of imports of goods and services.
16. Regarding monetary conditions, banks' liquidity needs would slightly ease, falling from 111.4 billion at end-2023 to 109.8 billion dirhams at end-2024, before growing to 133.6 billion at end-2025, mainly driven by the expected expansion of currency in circulation. Considering these changes, forecasts for non-agricultural growth and banking system expectations, growth in credit to the non-financial sector would accelerate from 2.7 percent in 2023 to 4.4 percent in 2024 and to 5.2 percent in 2025. As for the real effective exchange rate, given the inflation differential with our main trading partners and competitors, and its rise in nominal terms, it would continue to slightly appreciate to 0.5 percent in 2024 and to 0.2 percent in 2025, after 0.8 percent in 2023.
17. In terms of public finances, budget execution for the first five months of 2024 showed a 10.8 percent improvement in current revenues, driven by higher tax receipts. At the same time, overall expenditure rose by 1.2 percent, driven by goods and services, while subsidies and capital expenditure declined. In the light of these changes, the additional appropriations of 14 billion dirhams allocated to the general budget, of which almost half are earmarked for wage increases convened within the social dialogue, and the update of its macroeconomic projections, Bank Al-Maghrib expects the fiscal deficit to remain stable at 4.4 percent of GDP this year, and to fall to 4.1 percent by 2025.

OVERVIEW

Despite persistent geopolitical tensions and tighter financial conditions, economic activity in the main advanced and emerging countries has continued to show relative resilience since the start of the year. Data for the first quarter of 2024 shows year-on-year **economic growth** in the USA of 2.9 percent, after 3.1 percent the previous quarter, and of 0.4 percent, compared with 0.2 percent, in the euro area. In particular, it increased from 1.2 percent to 1.3 percent in France and from 2.1 percent to 2.4 percent in Spain, and stabilized at 0.7 percent in Italy, while it contracted by a further 0.2 percent in Germany. GDP rose by 0.2 percent, after a 0.2 percent fall in the UK, and dropped by 0.3 percent, after a 1.3 percent rise, in Japan.

In the main emerging countries, growth accelerated in China to 5.3 percent in the first quarter, after 5.2 percent one quarter earlier, despite the real estate crisis. Similarly, it rose from 2.1 percent to 2.5 percent in Brazil and from 4.9 percent to 5.4 percent in Russia, while it decelerated from 8.6 percent to 7.8 percent in India.

May's **labor market** data indicate continued strength in the US, with 272,000 jobs created instead of 165,000 in April, and wages up 4.1 percent, though unemployment rate edged up to 4 percent. In the euro area, the situation remained favorable as well, with the unemployment rate falling to 6.4 percent in April, reflecting its stabilization at 3.2 percent in Germany and 11.7 percent in Spain, and its decline to 7.3 percent in France and 6.9 percent in Italy.

In **financial markets**, the stock indices of the major advanced economies have trended globally upwards since the start of the year, with gains to end-May of 11.4 percent for the Euro Stoxx 50, 5.9 percent for the Dow Jones Industrials, 9.4 percent for the FTSE 100 and 16.3 percent for the Nikkei 225. These developments were accompanied by a slight increase in risk aversion, with rises in the VIX index to 12.9 in May from 12.4 in December 2023 in the American financial markets, and in the VSTOXX index to 13.5 in May from 13.4 in Europe. In emerging economies, the MSCI EM increased by 8.7 percent at the end of the first 5 months of the year, reflecting in particular rises of 12.5 percent for China and 11.9 percent for Türkiye.

As regards **sovereign yields**, they went up at the end of the first five months of 2024 for advanced economies. Thus, the 10-year rate rose by 5 basis points (bps) for the United States and France to 4.5 percent and 3 percent respectively, by 4 bps to 2.5 percent for Germany, and by 2 bps for Spain (to 3.3 percent) and Italy (to 3.8 percent). In the main emerging economies, this rate fell by 3 bps to 2.3 percent in China and by 1 bp to 7.1 percent in India. On the other hand, it rose by 15 bps to 11.8 percent in Brazil and by 29 bps to 26.2 percent in Türkiye.

On the **exchange markets**, the euro depreciated by 0.9 percent against the dollar and 0.8 percent against the pound sterling at the end of the first five months of the year, while gaining 7.3 percent against the Japanese yen. The currencies of the major emerging economies fell overall against the dollar over the same period, with declines of 1.3 percent for the Chinese renminbi, 4.7 percent for the Brazilian real and 9.8 percent for the Turkish lira. The Indian rupee remained stable against the US dollar.

In the **commodity markets**, after four consecutive months of increases, the price of Brent crude rose by 8.9 percent in May to an average of USD82 a barrel. This was due in particular to the International Energy Agency's (IEA) downward revision of global oil demand forecasts as OPEC+ maintained its production cuts. However, prices were still up 8.3 percent year-on-year. Non-energy prices rose by 5.1 percent year-on-year, mainly reflecting a 16 percent increase in the price of metals and ores. Prices for phosphates and derivatives fell in May by 4.2 percent month-on-month to USD522/t for DAP and by 1.7 percent to USD434.9/t for TSP and remained stable at USD152.5/t for raw phosphate. Year-on-year, prices were down 55.8 percent for raw phosphate and 10.4 percent for TSP, while they rose slightly by 2.4 percent for DAP.

Against this backdrop, and while continuing its downward trend, **inflation** in the euro area rose slightly in May, to 2.6 percent, after having stabilized at 2.4 percent since March. This reflects an acceleration between April and May from 2.4 percent to 2.8 percent in Germany, from 2.4 percent to 2.7 percent in France and from 3.4 percent to 3.8 percent in Spain. On the other hand, inflation in the USA decelerated for the second consecutive month, to 3.3 percent in May, after 3.4 percent one month before. Similarly, inflation in the UK fell from 2.3 percent in April to 2 percent in May, while it accelerated from 2.5 percent to 2.9 percent in Japan.

In terms of **monetary policy stance**, at the end of its meeting on June 11 and 12, the **FED** decided to keep its target range unchanged at [5.25 percent-5.50 percent] for the 7th consecutive time, against a backdrop of sustained pace of economic activity, strong job creation and low unemployment. For its part, the **ECB** decided at the end of its meeting on June 6 to cut its three key interest rates by 25 bps, after keeping them unchanged for 9 months, amid decelerating headline inflation and its core component and falling inflation expectations. However, it stressed the persistence of domestic pressures on prices linked to high wage growth, noting that it will maintain a data-based approach, meeting by meeting, to determine the appropriate degree and duration of its restrictive monetary policy stance.

At the national level, economic growth reached 3.4 percent in 2023 against 1.5 in 2022 due to a 3.5 percent rise, after 3.4 percent, in the value added of non-agricultural activities, and a slight recovery of 1.4 percent, after an 11.3 percent contraction in agricultural value added. On the demand side, its domestic component contributed 3.6 percentage points to growth, while external demand made a negative contribution of 0.2 points.

In the first quarter of 2024, the **labor market** posted a further loss of 80,000 jobs after 280,000 a year earlier, with a fall of 206,000 in agriculture and the creation of 122,000 in non-agricultural activities, more than half of which were in services. The activity rate fell again, from 43.1 percent to 42.6 percent, and the unemployment rate rose from 12.9 percent to 13.7 percent.

With regard to the **external accounts**, data for the first four months of the year showed a 1.4 percent easing of the trade deficit, as a result of a rise of 3.5 percent in exports and 1.6 in imports. The coverage rate thus improved to 62.4 percent. Export growth was mainly driven by the continuing momentum of automotive and aeronautical exports, which rose by 12.8 percent and 17.3 percent respectively, and by a 4.7 percent increase in the sales of phosphates and derivatives. Conversely, sales in the "electronics

and electricity" and "textile and leather" sectors fell by 9.7 percent and 6 percent, respectively. The trend in imports mainly reflected increases of 6.8 percent in purchases of capital goods, 6.7 percent in those of consumer goods and 4.6 percent in purchases of semi-finished goods, while the energy bill fell by 8 percent. At the same time, travel receipts remained virtually unchanged at 31.9 billion dirhams, while travel expenditure rose by 25.2 percent. Remittances continued to grow, rising by 2.4 percent. As regards the main financial operations, FDI receipts rose by 24 percent, while expenditure related to Moroccan direct investments abroad fell by 27.9 percent. Under these conditions, official reserve assets stood at 358.6 billion dirhams, equivalent to 5 months and 9 days of goods and services imports.

As regards **monetary conditions**, banks' liquidity needs increased to a weekly average of 111.6 billion dirhams in the first quarter, before easing slightly to an average of 110.2 billion in April and May. Against this backdrop, Bank Al-Maghrib increased its injections to 123.9 billion and 124.1 billion, respectively. Monetary conditions were also characterized in the first quarter of 2024 by a 0.54 percent depreciation in the real effective exchange rate and near-stability quarter-on-quarter in lending rates at 5.40 percent, sustaining their rise since the start of monetary tightening in September 2022 at 116 bps. Bank credit to the non-financial sector rose by 2.6 percent compared with 2.8 percent in the previous quarter, reflecting the slower growth rate in loans to state-owned enterprises and households. The latest data for April 2024 indicate that the growth rate of credit was virtually unchanged at 2.7 percent.

On the **fiscal front**, the situation of the Treasury's costs and resources for the first five months of 2024 showed the budget deficit falling to 17.6 billion dirhams, boosted by the good performance of tax revenues which rose by 13.9 percent, while non-tax ones dropped by 22.9 percent. Current spending rose by 2.9 percent to 144 billion dirhams, mainly reflecting a 3.1 percent increase in that of goods and services, while subsidization costs and interest on debt fell by 9.3 percent and 0.8 percent, respectively. Under these conditions, the current balance showed a surplus of 7.7 billion, compared with a deficit of 3 billion a year earlier. Investment fell by 5.3 percent to 36.1 billion, bringing total expenditure to 180.1 billion, up 1.2 percent. The positive balance of the Treasury special accounts dropped by 33.2 percent to 10.8 billion. Taking into account the reduction of 5.2 billion in the stock of pending transactions, cash deficit narrowed to 22.8 billion, compared with 26.6 billion at end-May 2023. This need was covered by net domestic resources of 15.1 billion and a positive net external flow of 7.8 billion dirhams. As a result, outstanding direct public debt would have risen by 4.1 percent at end-May 2024 compared with its level at end-December 2023.

In the **Casablanca stock exchange**, the MASI appreciated by 7.6 percent in the first quarter of 2024, driven mainly by increases in sector indices of 53.2 percent in the "shareholding and real estate development", 10.2 percent in "real estate investment companies" and 9.4 percent in "banks". Trading volume fell quarter-on-quarter from 31.9 billion dirhams to 13.1 billion, mainly due to the sharp drop in trading on the block market, where sales fell from 17.6 billion dirhams to 270.6 million dirhams. Against this backdrop, year-to-date market capitalization increased by 7.3 percent to 671.6 billion dirhams.

On the **real estate market**, the real estate price index rose by 0.4 percent in the first quarter of 2024, covering increases of 2.6 percent for commercial property and 0.2 percent for residential property, as well as a 0.1 percent decline for lands. The number of transactions contracted by 13.8 percent overall,

by 17 percent for commercial property, by 14.3 percent for residential property and by 10.4 percent for lands.

Against this backdrop, the downtrend in **inflation** continued, falling from 1.2 percent in the first quarter of 2024 to 0.3 percent on average in April and May. This deceleration is mainly due to the further decline in volatile food prices to -7.6 percent on average in April and May, after -1.2 percent in the first quarter of 2024. Conversely, and in line with the start of the withdrawal of butane gas subsidies from May 20, regulated tariffs rose by 0.5 percent year-on-year, instead of stagnating in the first quarter of 2024, while fuel and lubricant prices rose by 6.6 percent against a decline of 1.1 percent. Core inflation remained moderate and trended downward, standing at 2 percent after 2.2 percent. As for inflation expectations among financial sector experts, those for the 8-quarter horizon stood at 2.7 percent, instead of the 3.4 percent forecast a quarter earlier, and those for the 12-quarter horizon at 2.8 percent, after 3.3 percent.

As regards the outlook, the global economy is set to decelerate over the forecast horizon, albeit at a slower pace than forecast in March. Growth is expected to reach 2.8 percent in 2024 and 2.7 percent in 2025, after 3.2 percent in 2023. In the United States, after the notable resilience shown in 2023, GDP is expected to grow by 2.1 percent this year and 1.4 percent in 2025, mainly reflecting a slowdown in consumer spending. In the euro area, after reaching 0.5 percent in 2023, GDP growth will continue to be held back by the German economy, which is suffering in particular from its troubled automotive sector. It is expected to fall below 1 percent in 2024, before rising to 1.8 percent in 2025. In the United Kingdom, after a slight recession in 2023, the pace of activity should improve to 0.8 percent in 2024 and 1.5 percent in 2025, supported by a rebound in consumption.

In the main emerging countries, China should achieve its 5 percent growth target this year, thanks in part to stronger foreign demand, before decelerating to 4.8 percent in 2025, due in particular to persistent difficulties in the real-estate market and high local government debt, as well as the recently announced increase in US tariffs on Chinese imports. Meanwhile, the Indian economy is set to remain robust in the medium term thanks to public investment, with GDP set to strengthen by 6.8 percent in 2024 and 6.6 percent in 2025. In Brazil, after the “record harvest” of 2023, the economy is expected to grow by no more than 1.8 percent this year and 1.7 percent in 2025. In Russia, GDP grew significantly in the first quarter, driven by strong demand and war-related budget expenditure. Growth is foreseen at 2.7 percent in 2024, before virtually stagnating at 0.3 percent in 2025, mainly due to international sanctions.

In commodity markets, the price of Brent crude is set to rise to an average of 84.7 dollars a barrel in 2024, reflecting increased global demand and extended OPEC+ production cuts. It should continue to rise in 2025, to USD86 dollars a barrel. Concerning Moroccan **phosphate and derivatives**, DAP and TSP prices are set to fall from USD591/t in 2023 to USD564/t in 2024, and from USD449/t to USD421/t, respectively. In 2025, this trend would be reversed, with increases to USD592/t for DAP and USD478/t for TSP. As for raw phosphate, its price would rise from USD271/t in 2023 to USD230/t, then to USD212/t. With regard to **food prices**, after the 13.7 percent contraction observed in 2023, the FAO index should fall by 4.6 percent in 2024, before gaining 4.3 percent in 2025.

Against this backdrop, **inflation** should continue to decelerate over the medium term, reaching 3.5 percent in 2024 and 3.1 percent in 2025 worldwide. In the euro area, inflation is set to slow from 5.4 percent in 2023 to 2.5 percent in 2024 and 2.2 percent in 2025, while in the US, it will maintain its downward trend, falling from 4.1 percent in 2023 to 3.3 percent in 2024 and 2.7 percent in 2025.

At **national level**, exports are set to improve by 4.4 percent in 2024, driven mainly by a 10.7 percent rise in the automotive sector's sales to 164.1 billion dirhams and a 1.9 percent increase in the phosphates and derivatives sales to 78.2 billion dirhams, due in particular to the expected¹ rise in exported quantities. Imports are expected to rise by 6.1 percent, mainly as a result of higher purchases of capital goods, consumer goods and semi-finished products, while the energy bill is projected to ease by 2.2 percent to 119.3 billion dirhams. Travel receipts should continue to perform well, rising by 5.8 percent to 110.8 billion dirhams, while remittances should increase by 1.9 percent to 117.5 billion dirhams. The current account deficit should end the year at 1.7 percent of GDP, after 0.6 percent in 2023. FDI receipts are expected to rise to 46.6 billion, equivalent to 3.1 percent of GDP in 2024, after 2.4 percent a year earlier. In 2025, exports are set to grow by 8.9 percent, mainly reflecting a 13.2 percent increase, to 88.5 billion¹, in sales of phosphates and derivatives and a 12.8 percent rise, to 185.1 billion, in the automotive sector's shipments. At the same time, imports would go up 9.7 percent, mainly reflecting higher purchases of capital goods and finished consumer products, as well as a 4.9 percent rise to 125.1 billion in the energy bill. Travel receipts would rise by 5.8 percent to 117.2 billion dirhams, while remittances would rise by 5.3 percent to 123.7 billion dirhams. The current account deficit is thus expected to widen to 2.7 percent of GDP. FDIs are set to reach the equivalent of 3.2 percent of GDP.

Assuming that the planned external financing takes place, official reserve assets should increase to 382 billion dirhams by the end of 2024, and to 395.6 billion dirhams by the end of 2025. They would thus cover 5 months and 8 days and 5 months and 13 days of imports of goods and services, respectively.

In terms of **monetary conditions**, bank liquidity needs should ease to 109.8 billion dirhams by the end of 2024, before rising to 133.6 billion dirhams by the end of 2025. Bank lending to the non-financial sector is expected to accelerate to 4.4 percent in 2024 and 5.2 percent in 2025, considering the forecast trend in economic activity and banking system expectations.

As regards **public finance**, the budget deficit should stabilize at 4.4 percent of GDP in 2024, the same level as in 2023. This is due to the integration of additional general budget appropriations of 14 billion, including 6.5 billion to cover the increase in public sector salaries agreed upon as part of the social dialogue, and the increase in the forecast tax revenues, taking into account Bank Al-Maghrib's new macroeconomic projections and budget implementation at end-April 2024. In 2025, the budget deficit should narrow to 4.1 percent of GDP, instead of the 4 percent forecast in March, reflecting not only the impact of the social dialogue agreement, but also a better performance in tax receipts, combined with a reduction in subsidization costs and capital expenditure.

¹ Projections based on CRU Phosphate Rock and Fertilizer Premium Service forecasts.

In terms of **economic activity**, after accelerating to 3.4 percent in 2023, growth in the national economy is expected to fall to 2.8 percent this year, before rebounding to 4.5 percent in 2025. This forecast covers a 6.9 percent contraction in agricultural value added in 2024, taking into account a forecast cereal harvest estimated by the Ministry of Agriculture at 31.2 million quintals (MQx), followed by an 8.6 percent increase in 2025, assuming an average cereal production of 55 MQx and an average growth in other crops. The growth rate of non-agricultural activities should consolidate to 3.9 percent in 2024, then 4.1 percent in 2025.

Under these conditions, **inflation** should slow to 1.5 percent, mainly reflecting a faster-than-expected fall in volatile food prices and a slight delay in the cut of subsidies for butane gas, before accelerating to 2.7 percent in 2025. Its core component would decelerate to 2.3 percent in 2024 and 2025, after 5.6 percent in 2023.

Uncertainties as to the international outlook remain high, especially as 2024 is an election year in many countries, with the balance of risks tilted downward for growth and upward for inflation. The persistence of the conflict in Ukraine and the risk of escalation in the Middle East could lead to a more pronounced deceleration in global economic activity and a disruption of energy supplies that would result in higher commodity prices.

At the national level, the risks to activity are mainly linked to the recurrence of drought periods and the aggravation of water stress in the medium term. On the other hand, efforts aiming to boost investment and the large-scale projects launched or planned by the Kingdom reinforce optimism about a faster pace of economic activity in the medium and long term. As for inflation, the risks surrounding its outlook are kept upward. In addition to the risks associated with external pressures, successive periods of drought and worsening water stress could lead to higher food prices.

1. INTERNATIONAL DEVELOPMENTS

Economic activity remained resilient in the first quarter of the year, both in advanced economies and in emerging countries, although at different paces. Growth thus accelerated in the euro area, the United Kingdom and China, while it slowed down in the United States and India. At the same time, although on a downward trend, inflation accelerated in May in the euro area year-on-year and recorded a further slight deceleration in the United States. Expecting a better inflation outlook, the ECB decided at its meeting on June 6 to reduce its three key interest rates by 25 bps, thus marking the first reduction in its rates since 2019. For its part, following its meeting on June 11 and 12, the FED maintained, for the 7th consecutive time, the target range for the federal funds rate unchanged. On the labor markets of advanced economies, the situation remains favorable. As regards financial markets, data at end-May show generally positive performances of the main advanced and emerging stock markets. In sovereign bond markets, long-term yield rates increased for major advanced economies, while they showed disparate developments for emerging countries. As for commodities, after four consecutive months of increase, the price of Brent crude fell in May month-on-month. Likewise, the agricultural product price index decreased slightly during the same month, but remained up year-on-year.

1.1 Economic activity and employment

1.1.1 Economic activity

Despite an international context marked by the persistence of geopolitical tensions and tighter financial conditions, major advanced and emerging economies continue to show relative resilience overall.

Thus, data relating to the first quarter of 2024 show growth of 2.9 percent in the United States year-on-year, after 3.1 percent a quarter earlier. In the euro area, it accelerated to 0.4 percent, with uneven developments between its main member countries. The pace of activity thus increased from 1.2 percent to 1.3 percent in France and from 2.1 percent to 2.4 percent in Spain, and stagnated at 0.7 percent in Italy, while in Germany, GDP contracted again by 0.2 percent. As for other advanced economies, GDP grew by 0.2 percent in the first quarter in the United Kingdom after contracting by 0.2 percent in the previous quarter. Conversely, it contracted by 0.3 percent in Japan,

after an increase of 1.3 percent.

Table 1.1: YoY change in quarterly growth (%)

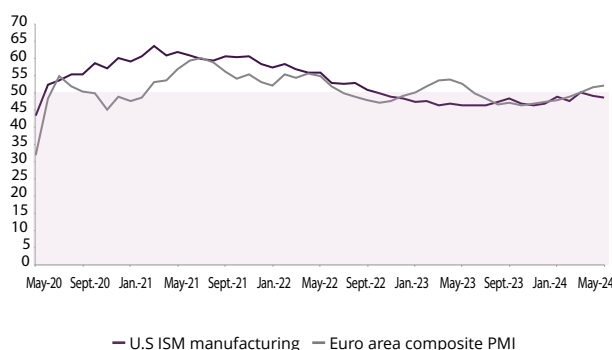
| | 2022 | | | | 2023 | | | | 2024 |
|--------------------|------|------|------|------|------|-----|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| Advanced countries | | | | | | | | | |
| United States | 3.6 | 1.9 | 1.7 | 0.7 | 1.7 | 2.4 | 2.9 | 3.1 | 2.9 |
| Euro area | 5.5 | 4.1 | 2.5 | 1.9 | 1.3 | 0.6 | 0.2 | 0.2 | 0.4 |
| France | 4.7 | 3.7 | 1.4 | 0.7 | 1.0 | 1.4 | 0.9 | 1.2 | 1.3 |
| Germany | 4.0 | 1.6 | 1.2 | 0.8 | 0.1 | 0.2 | -0.1 | -0.2 | -0.2 |
| Italy | 6.6 | 5.3 | 2.8 | 2.0 | 2.2 | 0.6 | 0.6 | 0.7 | 0.7 |
| Spain | 6.8 | 7.2 | 5.4 | 3.8 | 4.0 | 2.0 | 1.9 | 2.1 | 2.4 |
| United Kingdom | 11.4 | 3.9 | 2.1 | 0.6 | 0.3 | 0.2 | 0.2 | -0.2 | 0.2 |
| Japan | 0.4 | 1.3 | 1.5 | 0.7 | 2.5 | 2.2 | 1.5 | 1.3 | -0.3 |
| Emerging countries | | | | | | | | | |
| China | 4.8 | 0.4 | 3.9 | 2.9 | 4.5 | 6.3 | 4.9 | 5.2 | 5.3 |
| India | 4.5 | 12.8 | 5.5 | 4.3 | 6.2 | 8.2 | 8.1 | 8.6 | 7.8 |
| Brazil | 1.5 | 3.6 | 4.3 | 2.7 | 4.2 | 3.5 | 2.0 | 2.1 | 2.5 |
| Turkey | 7.8 | 7.6 | 4.1 | 3.3 | 4.0 | 3.9 | 6.1 | 4.0 | 5.7 |
| Russia | 3.7 | -3.5 | -2.8 | -1.8 | -1.6 | 5.1 | 5.7 | 4.9 | 5.4 |

Source: Thomson Reuters and Eurostat.

Regarding the main emerging countries, despite the crisis in the real estate sector in China, growth accelerated to 5.3 percent year-on-year in the first quarter after 5.2 percent a quarter earlier. Likewise, it strengthened from 2.1 percent to 2.5 percent in Brazil, from 4 percent to 5.7 percent in Türkiye and from 4.9 percent to 5.4 percent in Russia. On the other hand, the pace of activity decelerated from 8.6 percent to 7.8 percent in India.

Concerning developments in leading indicators of activity, the euro area composite PMI index recovered to 52.2 in May, after 51.7 the previous month, its highest level in a year. Conversely, the United States' ISM manufacturing index fell from 49.2 in April to 48.7 in May, with new orders for goods recording their sharpest decline in almost two years.

Chart 1.1: Change in some leading indicators in the U.S and the Euro Area



Source: Thomson Reuters Eikon.

1.1.2 Labor Market

In labor markets, May data indicate continued momentum in the United States, with the creation of 272,000 positions instead of 165,000 in April and an annual increase of 4.1 percent in wages, the unemployment rate however increased slightly to 4 percent. In the euro area, this rate fell to 6.4 percent in April, its lowest since the start of the euro, with notably stabilization at 3.2 percent in

Germany and 11.7 percent in Spain, as well as declines to 7.3 percent in France and 6.9 percent in Italy. In the United Kingdom, the latest data for the month of April shows a slight increase to 4.4 percent.

Table 1.2: Change in unemployment rate (%)

| | 2022 | 2023 | 2024 | | |
|----------------|------|------|-------|-------|-----|
| | | | March | April | May |
| United States | 3.6 | 3.6 | 3.8 | 3.9 | 4.0 |
| Euro area | 6.8 | 6.6 | 6.5 | 6.4 | N.D |
| France | 7.3 | 7.3 | 7.4 | 7.3 | N.D |
| Germany | 3.1 | 3.1 | 3.2 | 3.2 | N.D |
| Italy | 8.1 | 7.7 | 7.1 | 6.9 | N.D |
| Spain | 13.0 | 12.2 | 11.7 | 11.7 | N.D |
| United Kingdom | 3.9 | 4.0 | 4.3 | 4.4 | N.D |

Source: Eurostat and BLS.

1.2 Monetary and financial conditions

1.2.1 Monetary policy decisions

Regarding monetary policy decisions, at the end of its meeting on June 6, and after having kept them unchanged for 9 months, the ECB decided to lower its three key interest rates by 25 bps, amid a deceleration of inflation and its core component, and a drop in inflation expectations. Thus, the interest rate for the main refinancing operations was reduced to 4.25 percent, that of the marginal lending facility to 4.50 percent and that of the deposit facility to 3.75 percent. However, it underlined the persistence of domestic price pressures linked to the continued rise in wages. Furthermore, it indicated that its Asset Purchase Program (APP) is contracting at a measured and predictable pace, with the Eurosystem no longer reinvesting principal repayments on maturing securities. As for the Pandemic Emergency Purchase Program (PEPP), the reinvestment of repayments of maturing securities will be maintained in the first half, before its gradual reduction in the second half and its cessation at the end of the year.

For its part, the FED decided, at the end of its meeting on June 11 and 12, to keep the target range of the federal funds rate unchanged at [5.25 percent-5.50 percent], for the 7th consecutive time, amid modest progress towards the inflation target in recent months. The FED also indicated that it would continue to reduce holdings of Treasury bonds and mortgage-backed securities. Likewise, the Bank of England announced on June 20 that it would maintain its key rate at 5.25 percent, indicating that monetary policy will have to remain restrictive long enough to sustainably bring inflation back to the 2 percent target in the average term.

At the level of emerging economies, the central banks of China, India, Türkiye, and Russia kept their key rates unchanged during their latest meetings. On the other hand, the Central Bank of Brazil decided on May 8 to reduce its key rate by 25 bps to 10.50 percent, thus continuing the easing of its monetary policy started since the summer of 2023.

1.2.2 Financial markets

On the foreign exchange markets, at the end of the five first months of 2024, the euro depreciated by 0.9 percent against the dollar and by 0.8 percent against the pound sterling. On the other hand, it appreciated by 7.3 percent against the Japanese yen. The currencies of the main emerging economies also depreciated against the dollar over the same period, with declines of 1.3 percent for the Chinese renminbi, 4.7 percent for the Brazilian real and 9.8 percent for the Turkish lira. The Indian rupee remained stable against the US dollar.

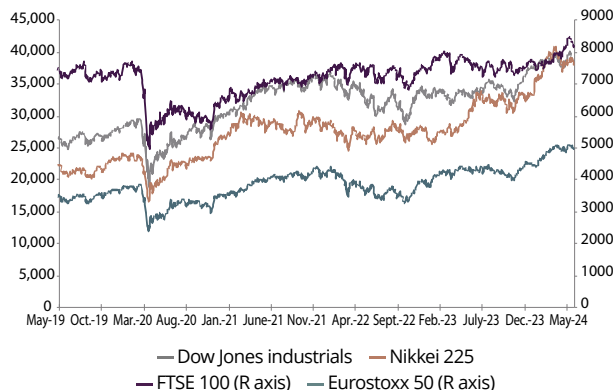
Chart 1.2: Change in Euro/dollar exchange rate



Source: Thomson Reuters Eikon.

On the stock markets of the main advanced economies, the trend has gone upwards since the start of the year, with significant gains at end-May, of 11.4 percent for the Euro Stoxx 50, 5.9 percent for the Dow Jones Industrials, 9.4 percent for the FTSE 100 and 16.3 percent for the Nikkei 225.

Chart 1.3: Change in major stock market indices of advanced economies

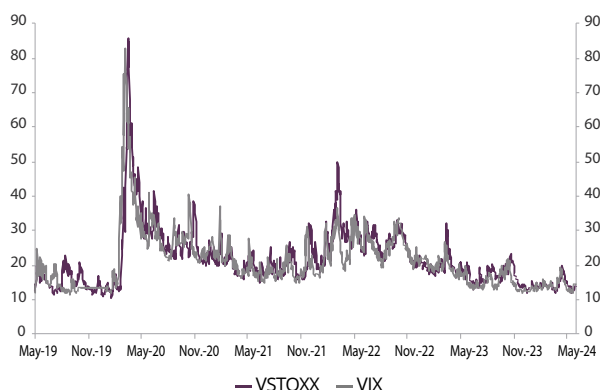


Source: Thomson Reuters Eikon.

These developments were accompanied by an increase in risk aversion on the American financial markets, with an increase in the VIX index to 12.9 in May compared to 12.4 in December 2023. On the European side, the VSTOXX volatility index increased slightly to 13.5 (compared to 13.4 in December).

In terms of emerging economies, the MSCI EM recorded an increase of 8.7 percent at the end of the first 5 months of the year, in connection in particular with the gains in the Chinese (+12.5 percent) and Indian (+11.9 percent) indices.

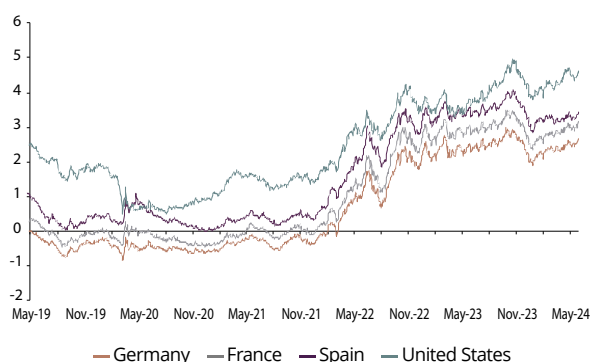
Chart 1.4: Change in the VIX and the VSTOXX



Source: Thomson Reuters Eikon.

As regards sovereign bond markets, yields for advanced economies rose at the end of the first five months of the year. Thus, the 10-year rate increased by 5 bps for the United States and France to 4.5 percent and 3 percent respectively, 4 bps to 2.5 percent for Germany, and 2 bps for Spain (to 3.3 percent) and Italy (to 3.8 percent). In the major emerging economies, this rate fell by 3 bps to 2.3 percent in China and by 1 bp to 7.1 percent in India. On the other hand, it increased by 15 bps to 11.8 percent in Brazil and by 29 bps to 26.2 percent in Türkiye.

Chart 1.5: Change in 10-year sovereign bond yields

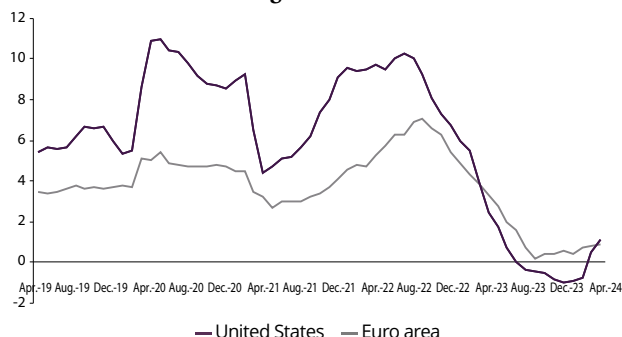


Source: Thomson Reuters Eikon.

On the money markets, the dollar 3-month Libor and the Euribor of the same maturity stood at 5.6 percent and 3.8 percent respectively in May, almost unchanged since the start of the year.

Regarding bank credit, its growth accelerated during the first four months of the year both in the United States and in the euro area, with a growth rate of 1.1 percent and 0.9 percent, respectively, year-on-year in April.

Chart 1.6: YoY credit growth in the US and euro area



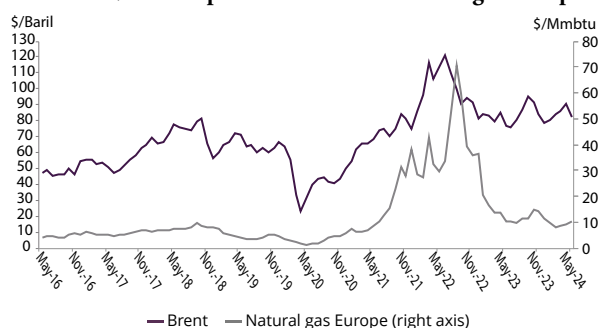
Source: Thomson Reuters Eikon.

1.3 Commodity prices and inflation

1.3.1 Energy commodity prices

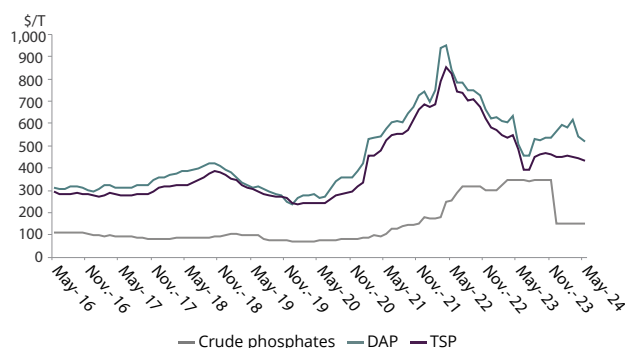
On the oil market, after four consecutive months of increase, the Brent crude price contracted by 8.9 percent to 82 dollars per barrel in May, due in particular to a downward revision by the International Energy Agency (IEA) of forecasts of global oil demand as well as a reduction in the geopolitical risk premium. However, the Brent crude price remains up 8.3 percent year-on-year. At the same time, the price of natural gas on the European market increased in May by 11.4 percent to USD10.12/MMBtu, thus posting its third consecutive increase month-on-month and a virtual stagnation year-on-year.

Chart 1.7: World prices of brent and natural gas-Europe



Source: World Bank.

Chart 1.9: Change in world prices of phosphate and fertilizers

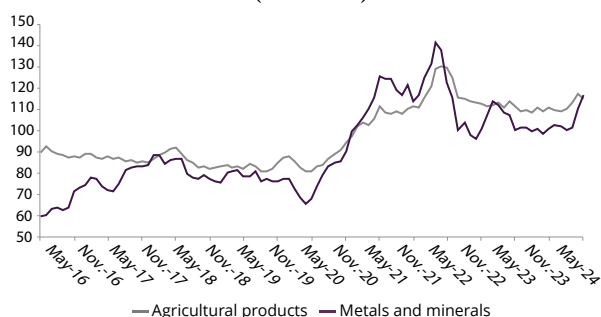


Source: World Bank.

1.3.2 Non-energy commodity prices

Excluding energy, the World Bank price index remained almost stable month-on-month in May, notably covering an increase of 5.5 percent in the metals and minerals index and a decline of 2.2 percent in the index of agricultural products. Year-on-year, non-energy prices increased by 5.1 percent, mainly reflecting a 16 percent increase in those of metals and ores.

Chart 1.8: Change in non-energy commodity price indices (2010=100)



Source: World Bank.

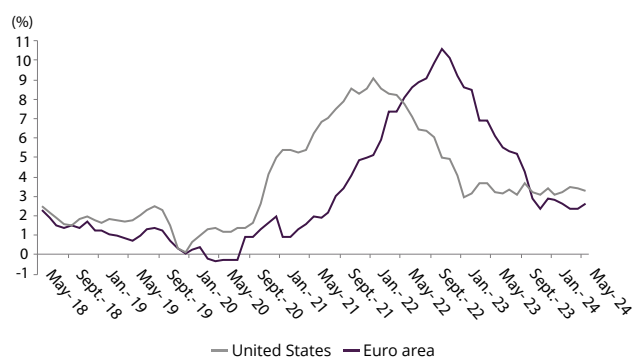
During the month of May, the prices of Moroccan phosphates and derivatives fell by 4.2 percent month-on-month to USD522/t for DAP and by 1.7 percent to USD434.9/t for the TSP and remained stable at USD152.5/t for raw phosphate. Year-on-year, prices fell by 55.8 percent for raw phosphate and by 10.4 percent for TSP, while they increased slightly by 2.4 percent for DAP.

1.3.3 Inflation

After stabilizing at 2.4 percent since March, inflation in the euro area increased slightly to 2.6 percent in May, reflecting in particular an acceleration in the annual growth rate of prices between April and May from 2.4 percent to 2.8 percent in Germany, from 2.4 percent to 2.6 percent in France and from 3.4 percent to 3.8 percent in Spain.

On the other hand, inflation in the United States has decelerated for the second consecutive month, standing at 3.3 percent in May year-on-year, after 3.4 percent in April, thanks in particular to a slowdown in the prices of food products and those of housing. Likewise, inflation dropped down in the United Kingdom from 2.3 percent in April to 2 percent in May while, in Japan, it accelerated from 2.5 percent to 2.9 percent in May.

As for the main emerging economies, inflation remained very low in China, with the rate stagnating at 0.3 percent in May. On the other hand, it accelerated from 3.7 percent in April to 3.9 percent in May in Brazil and from 7.8 percent to 8.3 percent in Russia, while it slowed down from 4.8 percent to 4.7 percent in India over the same period.

Chart 1.10: Inflation in the United States and the euro area**Table 1.3: Recent year-on-year change in inflation in main advanced countries in %**

| | 2022 | 2023 | 2024 | | |
|----------------|------|------|-------|-------|-----|
| | | | March | April | May |
| United States | 8.0 | 4.1 | 3.5 | 3.4 | 3.3 |
| Euro area | 8.4 | 5.5 | 2.4 | 2.4 | 2.6 |
| Germany | 8.6 | 6.1 | 2.3 | 2.4 | 2.8 |
| France | 5.9 | 5.7 | 2.4 | 2.4 | 2.6 |
| Spain | 8.3 | 3.4 | 3.3 | 3.4 | 3.8 |
| Italy | 8.7 | 6.0 | 1.2 | 0.9 | 0.8 |
| United Kingdom | 9.0 | 7.4 | 3.2 | 2.3 | 2.0 |
| Japan | 2.5 | 3.3 | 2.7 | 2.5 | 2.9 |

Sources: Thomson Reuters, Eurostat and IMF.

Box 1.1: The Chinese economy facing difficulties in the real estate sector

Real estate-related activities are an important driver of China's economy, accounting for around 20 percent of GDP during the country's decades of rapid growth. This sector has long been driven by the rapid urbanization of the country and the improvement in the living conditions of the population. It has also contributed to the expansion of credit and, despite the measures taken by the authorities to limit the risks associated with household debt, average sale prices increased by almost 350 percent in the 15 years to 2021, which weakened access to housing and contributed to the accumulation of supply. This price rise partly reflects strong household investment demand, fueled by significant savings, an expansion of mortgages and limited investment alternatives¹. At the same time, real estate developers mobilized heavily to expand construction at a rapid pace, often working closely with local governments that depended on real estate activity for revenue.

The sector's massive indebtedness was regarded by the Chinese government as a major risk to the country's economy and financial system, and starting from 2020, authorities took steps to contain the real estate bubble by tightening lending standards for developers, which has dried up financing sources for already indebted groups. As a result, some developers found themselves on the verge of bankruptcy, triggering an expansion of unfinished housing and driving down prices, which dissuaded many Chinese from investing in the sector.

Thus, the multiplication of payment defaults by developers and the spread of risks in the financial sector have led the authorities to adjust their policy, while maintaining their objectives of cleansing the market, by facilitating developers' deleveraging and moderating housing cost. The measures taken were mainly aimed at financing the completion of the projects started and restoring demand, mainly through the easing of prudential rules relating to the purchase of housing and the granting of mortgage, with reductions in the minimum amounts of the personal input and interest rates on mortgages. These changes were implemented differently by provincial governments depending on the situation of the local real estate market, but the results remained uneven and hardly convincing.

1 "People's Republic of China: Selected Issues," IMF, February 9, 2024.

Real estate activity contracted quite sharply compared to recent real estate downturns in many other countries. However, housing prices only fell modestly, largely reflecting the efforts of local governments to maintain price stability. The restructuring of developers' balance sheets has also been largely delayed giving defaulting developers time to complete the significant number of unfinished pre-sold units and to limit the immediate effects on the financial system.

Thus, over the first four months of 2024, real estate investments contracted by 6.2 percent year-on-year. Likewise, sales fell by 0.4 percent in terms of surface area over the same period. In addition, real estate prices recorded in the country's 70 main cities decreased in April year-on-year in 48 cities for new properties and in 61 cities for old ones².

In view of this, the Chinese government announced – on Friday May 17, 2024 – a rescue plan for the sector, by purchasing part of the large number of empty housing units or halted construction sites to transform them into social housing. The central bank also announced, on the same day, granting 300 billion yuan in funding to support these buybacks, as well as the reduction from 20 percent to 15 percent of the minimum down payments required from individuals for the purchase of a first apartment and from 30 percent to 25 percent for a second.

However, the recovery in activity remains fragile. Households are still wary, real estate developers are still facing severe financial difficulties and the authorities' room for manoeuvre to increase their support remains narrow. Likewise, the weakening of Chinese demographics and economic slowdown is a significant obstacle on demand for housing in the medium and long term.

Finally, the IMF believes that the on-going correction in the housing market, which is necessary to steer the sector towards a more sustainable path, is likely to continue. However, a more comprehensive set of measures would facilitate an efficient and less costly transition. Furthermore, China needs structural reforms to rebalance the economy towards consumption, while strengthening the social safety net and liberalizing the services sector to enable it to boost growth potential and create jobs³.

² "Investment in Real Estate Development for Jan-Apr," National Bureau of Statistics of China, May 17, 2024.

³ "IMF Staff Completes 2024 Article IV Mission to the People's Republic of China ", IMF, May 28, 2024.

2. EXTERNAL ACCOUNTS

Foreign trade data for the first four months of 2024 show an upturn in trade in goods and foreign direct investments, virtual stagnation in travel receipts and continued growth in remittances. The trade deficit narrowed by 1.4 percent to 90.7 billion, as a result of increases of 3.5 percent in exports and 1.6 percent in imports. As a result, the coverage rate improved to 62.4 percent from 61.2 percent for the same period a year earlier. At the same time, travel receipts remained virtually stable, while expenditure on travel rose by 25.2 percent. Remittances rose by 2.4 percent to 36.8 billion dirhams. Concerning the main financial operations, FDI receipts increased by 24 percent to 13.1 billion dirhams, while expenditure on Moroccan direct investments abroad contracted by 27.9 percent to 6.5 billion dirhams. Under these conditions, outstanding official reserve assets stood at 358.6 billion dirhams at end-April 2024, representing the equivalent of 5 months and 9 days of imports of goods and services.

2.1 Trade balance

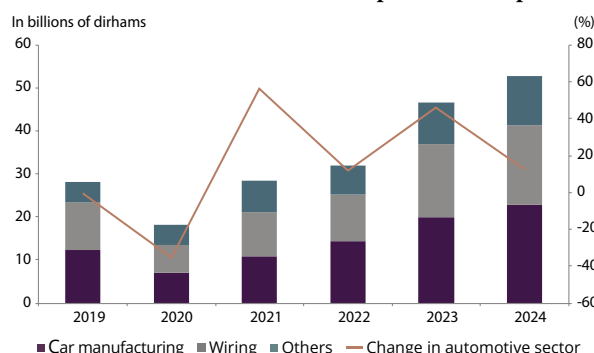
2.1.1 Exports

The increase in exports was mainly driven by the continued momentum of sales in the automotive sector, which rose by 12.8 percent to 52.7 billion dirhams. This trend includes increases of 13.9 percent to 22.9 billion for the car manufacturing segment and 10.8 percent to 18.6 billion for the wiring segment. Similarly, shipments in the aeronautical sector increased by 17.3 percent to 8.3 billion dirhams, mainly as a result of a 27.7 percent growth to 5.4 billion dirhams in the assembly segment. In addition, sales of phosphates and derivatives posted an increase of 4.7 percent to 25.2 billion, driven by a 7.4 percent rise in shipments of natural and chemical fertilizers, due to the rise in quantities exported against a backdrop of falling fertilizer prices. As regards the other products, exports of raw phosphates rose by 12.2 percent to 2.6 billion, while sales of phosphoric acid fell by 9.9 percent to 4 billion dirhams.

By contrast, exports of “electronics and electricity” decreased by 9.7 percent to 5.3 billion, reflecting

a 25.7 percent drop in shipments of electronic components. Similarly, sales in the “textiles and leather” sector fell by 6 percent to 15.2 billion, with decreases of 5.6 percent for ready-made garments and 14.9 percent for footwear, while sales of agricultural and agri-food products ebbed by 1.9 percent to 33.7 billion, driven by a 5.1 percent decline in exports from the food industry.

Chart 2.1: Automotive sector exports to end April



Source: Foreign Exchange Office.

Table 2.1: Change in exports
(in millions of dirhams)

| Sectors/Segments | January - April | | Change | |
|---|-----------------|----------------|--------------|--------------|
| | 2024 | 2023 | In value | In % |
| Exportations | 150,498 | 145,404 | 5,094 | 3.5 |
| Automobile | 52,719 | 46,757 | 5,962 | 12.8 |
| Construction | 22,885 | 20,090 | 2,795 | 13.9 |
| Cabling | 18,640 | 16,820 | 1,820 | 10.8 |
| Vehicle and seat interiors | 3,035 | 2,514 | 521 | 20.7 |
| Aeronautics | 8,328 | 7,098 | 1,230 | 17.3 |
| Assembly | 5,354 | 4,193 | 1,161 | 27.7 |
| EWIS* | 2,937 | 2,873 | 64 | 2.2 |
| Phosphates and derivatives | 25,234 | 24,101 | 1,133 | 4.7 |
| Natural and chemical fertilizers | 18,656 | 17,373 | 1,283 | 7.4 |
| Phosphates | 2,625 | 2,340 | 285 | 12.2 |
| Phosphoric acid | 3,953 | 4,388 | -435 | -9.9 |
| Electronics and Electricity | 5,293 | 5,862 | -569 | -9.7 |
| Electronic components | 1,978 | 2,661 | -683 | -25.7 |
| Devices for cutting or connecting electrical circuits and resistors | 607 | 515 | 92 | 17.9 |
| Agriculture and Food | 33,691 | 34,340 | -649 | -1.9 |
| Food industry | 14,486 | 15,270 | -784 | -5.1 |
| Agriculture, forestry, hunting | 18,406 | 18,354 | 52 | 0.3 |
| Textiles and Leather | 15,212 | 16,179 | -967 | -6.0 |
| Ready-made garments | 10,035 | 10,634 | -599 | -5.6 |
| Hosiery | 977 | 1,148 | -171 | -14.9 |
| Footwear | 2,917 | 3,005 | -88 | -2.9 |
| Other industries | 8,534 | 9,232 | -698 | -7.6 |
| Metallurgy and metalworking | 2,265 | 2,731 | -466 | -17.1 |
| Pharmaceutical industry | 496 | 531 | -35 | -6.6 |
| Plastics and rubber industry | 525 | 445 | 80 | 18.0 |
| Other mining | 1 486 | 1 835 | -349 | -19.0 |
| Zinc ore | 69 | 209 | -140 | -67.0 |
| Copper ore | 396 | 472 | -76 | -16.1 |

*Electrical wiring interconnection systems.

Source: Foreign Exchange Office.

2.1.2 Imports

The upturn in imports reflects differing trends observed by product group. In particular, purchases of capital goods increased by 6.8 percent to 55.7 billion dirhams, mainly reflecting increases of 57 percent in purchases of commercial vehicles, 21.6 percent for “Apparatus for switching or connecting electronic circuits” and 12.1 percent for piston engines. Similarly, imports of consumer goods rose by 6.7 percent to 53.6 billion dirhams, driven by a 5.6 percent increase in purchases of passenger cars and a 9.1 percent rise in purchases of their parts and components. Purchases of semi-finished products rose by 4.6 percent to 51.7 billion dirhams, mainly due to the increase in purchases of “Iron or non-alloy steel semi-finished products”, from 0.5 billion dirhams to 1.8 billion dirhams.

By contrast, the energy bill fell by 8 percent to 39.3 billion dirhams, reflecting a 29.3 percent drop in purchases of “petroleum gas and other hydrocarbons” and a 33.5 percent fall in imports of “coal, coke and similar solid fuels”, while purchases of “gas oils and fuel oils” were up 9.5 percent, due to a 12.5 percent increase in the quantities imported. Similarly, supplies of food products fell by 2.5 percent to 30.1 billion, reflecting in particular a drop of 35.8 percent in purchases of press cake to 2.1 billion and of 34.7 percent in corn to 1.8 billion. Purchases of raw products fell by 10.5 percent to 10.7 billion.

Table 2.2: Change in imports by user groups (in millions of dirhams)

| Usage group | January - April | | Change | |
|---|-----------------|----------------|---------------|--------------|
| | 2024 | 2023 | In value | In % |
| Imports | 241,205 | 237,418 | 3,787 | 1.6 |
| Capital goods | 55,728 | 52,171 | 3,557 | 6.8 |
| Commercial vehicles | 3,437 | 2,189 | 1,248 | 57.0 |
| Electric circuit breakers and connectors | 5,419 | 4,457 | 962 | 21.6 |
| Piston engines | 5,751 | 5,129 | 622 | 12.1 |
| Finished consumer products | 53,648 | 50,256 | 3,392 | 6.7 |
| Passenger car parts | 10,976 | 10,064 | 912 | 9.1 |
| Medicines and other pharmaceutical products | 3,344 | 2,697 | 647 | 24.0 |
| Passenger cars | 7,246 | 6,862 | 384 | 5.6 |
| Semi-finished products | 51,657 | 49,396 | 2,261 | 4.6 |
| Semi-finished products of iron or non-alloy steel | 1,841 | 540 | 1,301 | - |
| Iron and non-alloy steel wires, bars and sections | 1,611 | 1,020 | 591 | 57.9 |
| Food products | 30,063 | 30,840 | -777 | -2.5 |
| Press cake | 2,112 | 3,289 | -1,177 | -35.8 |
| Corn | 1,829 | 2,801 | -972 | -34.7 |
| Wheat | 7,106 | 7,274 | -169 | -2.3 |
| Barley | 1,344 | 609 | 735 | - |
| Raw products | 10,662 | 11,912 | -1,250 | -10.5 |
| Crude or refined soybean oil | 1,883 | 2,622 | -739 | -28.2 |
| Scrap metal, waste and other ores | 1,214 | 1,551 | -337 | -21.7 |
| Oil seeds and fruits | 562 | 349 | 213 | 61.0 |
| Energy products | 39,257 | 42,684 | -3,427 | -8.0 |
| Petroleum gases and other hydrocarbons | 7,167 | 10,140 | -2,973 | -29.3 |
| Coals, cokes and similar solid fuels | 4,554 | 6,850 | -2,296 | -33.5 |
| Gas oils and fuel oils | 20,462 | 18,684 | 1,778 | 9.5 |

Source: Foreign Exchange Office.

2.2 Other components of the current account balance

The surplus on the balance of services fell by 6.8 percent to 38.7 billion, as a result of a 15.7 percent increase in imports to 45.9 billion and a 4.2 percent rise in exports to 84.5 billion.

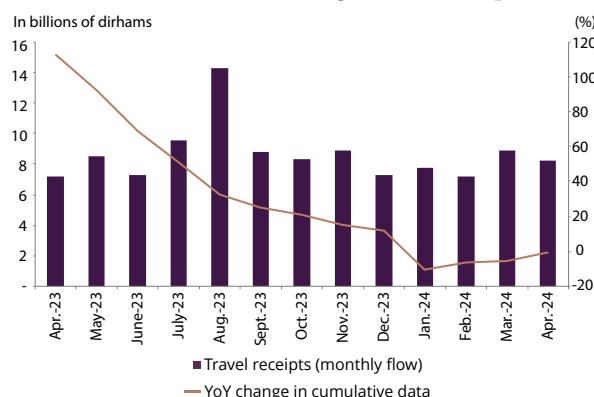
Table 2.3: Change in the balance of services (in million dirhams)

| | January - April | | Change | |
|---------|-----------------|--------|----------|------|
| | 2024 | 2023 | In value | In % |
| Imports | 45,858 | 39,635 | 6,223 | 15.7 |
| Exports | 84,509 | 81,086 | 3,423 | 4.2 |
| Balance | 38,651 | 41,451 | -2,800 | -6.8 |

Source: Foreign Exchange Office.

At the same time, travel receipts remained virtually stable at 31.9 billion dirhams, while travel expenditure rose by 25.2 percent to 10 billion dirhams.

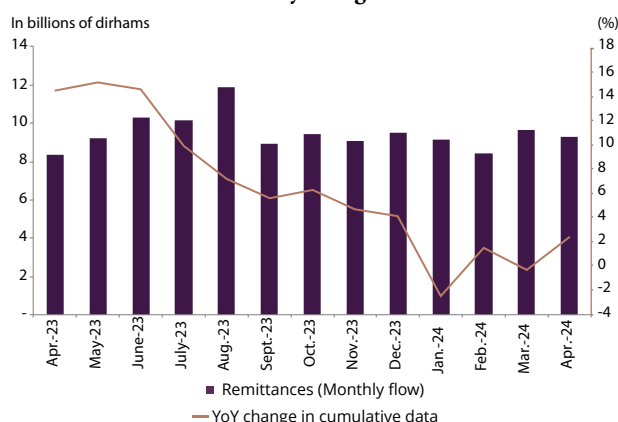
Chart 2.2: Monthly change in travel receipts



Source: Foreign Exchange Office.

Remittances rose by 2.4 percent to 36.8 billion dirhams.

Chart 2.3: Monthly change in remittances



Source: Foreign Exchange Office.

2.3 Financial account

As regards the main financial operations, net flows of FDIs rose by 48.6 percent to 8.3 billion, driven by a 24 percent increase in receipts to 13.1 billion and, to a lesser extent, by a 3.1 percent fall in disposals. As for Moroccan direct investments abroad, their net flow dropped by 4.2 billion, as a result of a 2.5 billion decrease in expenditure and a 1.7 billion increase in revenues.

At the end of April 2024, outstanding official reserve assets stood at 358.6 billion dirhams, representing the equivalent of 5 months and 9 days of imports of goods and services.

Table 2.4: Direct investments
(in million dirhams)

| | January - April | | Change | |
|--|-----------------|--------|----------|-------|
| | 2024 | 2023 | In value | In % |
| Foreign direct investments | 8,255 | 5,555 | 2,700 | 48.6 |
| Revenues | 13,128 | 10,584 | 2,544 | 24.0 |
| Expenses | 4,873 | 5,029 | -156 | -3.1 |
| Direct investments of Moroccans abroad | 15 | 4,255 | -4,240 | -99.6 |
| Expenses | 6,460 | 8,965 | -2,505 | -27.9 |
| Revenues | 6,445 | 4,710 | 1,735 | 36.8 |

Source: Foreign Exchange Office.

3. MONEY, CREDIT AND ASSET MARKETS

In the first quarter of 2024, monetary conditions were marked by virtually stable lending rates and a depreciating real effective exchange rate. The pace of bank credit to the non-financial sector in the first 4 months of the year remained almost unchanged at 2.7 percent compared with the last quarter of 2023. As regards the other counterparts of the money supply, net claims on the central government fell by 5.4 percent after increasing by 1.8 percent, and official reserve assets rose by 5 percent instead of 4.6 percent. Overall, the money supply grew by 3.7 percent after 5.2 percent a quarter earlier.

On the real estate market, the asset price index rose by 0.4 percent in the first quarter of 2024, with increases of 2.6 percent for commercial property and 0.2 percent for residential property, and a fall of 0.1 percent for urban land. The number of transactions declined by 13.8 percent overall, by 17 percent for commercial property, 14.3 percent for residential property and 10.4 percent for urban land.

On the Casablanca Stock Exchange, the MASI gained 7.6 percent in the first quarter of 2024 and the trading volume fell from 31.9 billion dirhams to 13.1 billion. Against this backdrop, market capitalisation increased by 7.3 percent since the beginning of the year to 671.6 billion dirhams.

3.1 Monetary conditions

3.1.1 Bank liquidity and interest rates

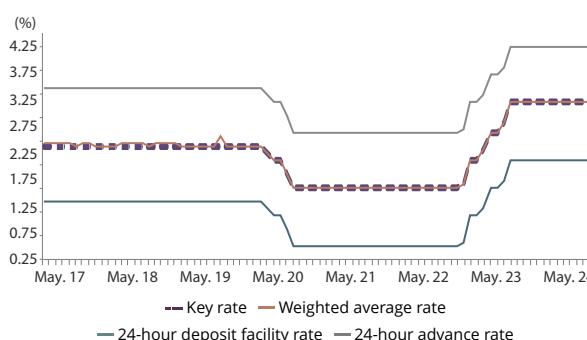
Banks' liquidity requirements increased to a weekly average of 111.6 billion dirhams during the first quarter of 2024, compared with 100.9 billion a quarter earlier, due in particular to fiat money expansion.

Under these conditions, Bank Al-Maghrib increased its injections to 123.9 billion dirhams from 114.9 billion, including 46.7 billion in the form of 7-day advances, 49.1 billion through repurchase agreements and 28.1 billion through guaranteed loans distributed as part of support programs for VSMEs' financing.

Against this backdrop, the average residual duration of the Bank's operations rose from 51.2 days to 63.2 days and the interbank rate remained in line with the key rate.

The latest available data indicate a slight easing of the banks' liquidity need to 110.2 billion on average between April and May 2024.

Chart 3.1: Interbank rate (daily data)



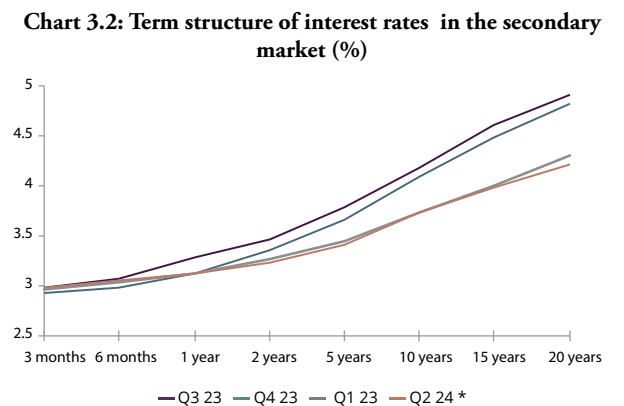
In the Treasury bill market, rates continued to fall during the first quarter, on both primary and secondary markets, particularly for long maturities.

During April and May, rates stabilised overall on both compartments.

Table 3.1: Treasury bond rates in the primary market (%)

| | 2023 | | | | 2024 | |
|----------|------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2* |
| 26 weeks | 3.22 | 3.15 | 3.07 | 2.98 | 2.86 | 2.85 |
| 2 years | 3.80 | 3.79 | 3.49 | 3.38 | 3.25 | 3.22 |
| 5 years | 3.98 | 4.16 | 3.82 | 3.72 | 3.42 | 3.43 |
| 10 years | 4.38 | 4.55 | 4.20 | 4.14 | 3.79 | 3.74 |
| 15 years | 4.97 | 4.93 | 4.64 | 4.51 | 4.05 | 4.02 |

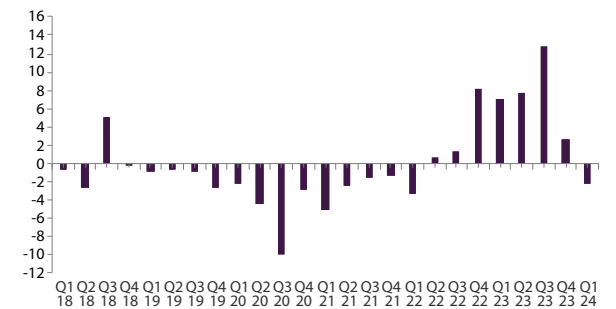
*Average observed in April and May 2024.



*Average observed in April and May 2024.

Certificates of deposit issuance rates were slightly up in the first quarter of 2024. As for deposit rates, rates on 6-month deposits rose quarterly by 7 basis points (bps) to an average of 2.54 percent, while one-year rates remained unchanged at 2.86 percent. On the other hand, the minimum rate on passbook savings accounts stood for the first half of 2024 at 2.73 percent, down 25 bps compared to the previous half-year. Under these conditions, banks’ cost of funding¹ fell slightly by 2.3 bps quarter-on-quarter.

Chart 3.3: Banks’ financing costs (change in basis points)



The latest available data for April 2024 show a near-stability, month-on-month, of rates on 6-month deposits at 2.40 percent and an increase of 14 bps to 2.96 percent for the 12-month deposit rates.

Table 3.2: Deposit rates (%)

| | 2023 | | | | 2024 | |
|-----------|------|------|------|------|------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | April |
| 6 months | 2.38 | 2.45 | 2.51 | 2.47 | 2.54 | 2.40 |
| 12 months | 2.69 | 2.97 | 2.63 | 2.86 | 2.86 | 2.96 |

With regard to lending rates, the results of Bank Al-Maghrib’s survey with banks for the first quarter of 2024 show that the overall average rate remained virtually unchanged at 5.40 percent from one quarter to the next. By institutional sector, rates on loans to individuals rose by 15 bps to 6.09 percent, with consumer loans up 4 bps to 7.22 percent and housing loans down 2 bps to 4.81 percent. Rates on business loans fell by 4 bps to 5.26 percent, with decreases of 5 bps to 5.30 percent for cash facilities, of 30 bps to 5.19 percent for property development loans and a 21-bp increase to 5.11 percent for equipment loans.

¹ Banks’ cost of funding is calculated as a weighted average of their costs of funds.

Table 3.3: Lending rates (%)

| | 2022 | 2023 | | | | 2024 |
|---------------------|------|------|------|------|------|------|
| | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| Global | 4.50 | 5.03 | 5.26 | 5.36 | 5.36 | 5.40 |
| Personal loans | 5.72 | 5.63 | 5.93 | 5.94 | 5.94 | 6.09 |
| Real estate loans | 4.32 | 4.36 | 4.64 | 4.74 | 4.83 | 4.81 |
| Consumer loans | 6.40 | 6.95 | 7.27 | 7.25 | 7.18 | 7.22 |
| Loans to businesses | 4.30 | 4.98 | 5.22 | 5.32 | 5.30 | 5.26 |
| Cash advances | 4.19 | 4.98 | 5.28 | 5.31 | 5.35 | 5.30 |
| Equipment loans | 4.38 | 4.81 | 4.72 | 5.09 | 4.90 | 5.11 |
| Real estate loans | 5.61 | 5.37 | 5.43 | 5.71 | 5.49 | 5.19 |

3.1.2 Foreign exchange market

During the first quarter of 2024, the euro appreciated by 0.90 percent against the US dollar. Against this backdrop, the value of the dirham gained 0.47 percent against the euro and 1.39 percent against the US dollar. Compared with the currencies of the main emerging countries, the dirham appreciated in particular by 10.06 percent against the Turkish lira, by 1.28 percent against the Brazilian real and by 0.89 percent against the Chinese yuan. Thus, considering the inflation differential compared to Morocco's trading partners and competitors, the effective exchange rate appreciated by 1.19 percent in nominal terms and depreciated by 0.54 percent in real terms.

Chart 3.4: Dirham exchange rate

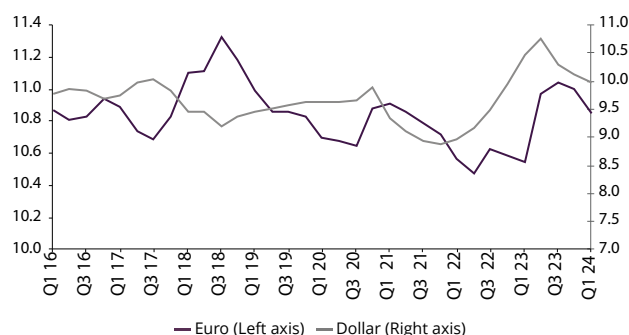
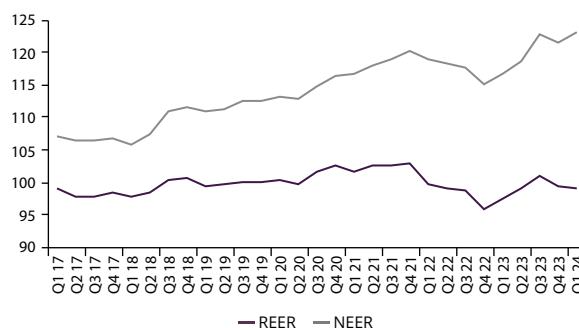


Chart 3.5: Change in the nominal and real effective exchange rates (Base 100 in 2010)



As regards foreign currency transactions, the average volume of banks' spot transactions with customers posted annual increases of 8.4 percent to 33.7 billion dirhams for sales and 8.4 percent to 34.4 billion for purchases during the first quarter of 2024. Forward transactions fell by 19.4 percent to an average of 13.8 billion for purchases and by 14.2 percent to 3.3 billion for sales.

3.1.3 Monetary situation

The M3 aggregate rose by 3.7 percent in the first quarter of 2024, from 5.2 percent in the previous quarter. This reflects a further decline from -2 percent to -15.7 percent in money market UCITS and a deceleration from 11.4 percent to 10.2 percent in the growth of fiat money. In the same vein, the growth rate of sight deposits fell from 7.7 percent to 7.1 percent, mainly as a result of the slowdown in the growth rate of household deposits from 6.4 percent to 5.8 percent.

The decline in time deposits eased from 8.8 percent to 7.2 percent, reflecting in particular a 12.3 percent fall in private companies' deposits after a 15.3 percent drop one quarter earlier. Similarly, foreign currency deposits decreased by 0.5 percent after a 15.5 percent drop.

By main counterparts, the slowdown in money supply growth reflects the 5.4 percent fall in net claims on the central government after a 1.8 percent rise, while the growth rate of bank credit rose from 5.2 percent to 6 percent and that of official reserve assets from 4.6 percent to 5 percent.

Chart 3.6: Contribution of the major counterparts to YoY change in money supply

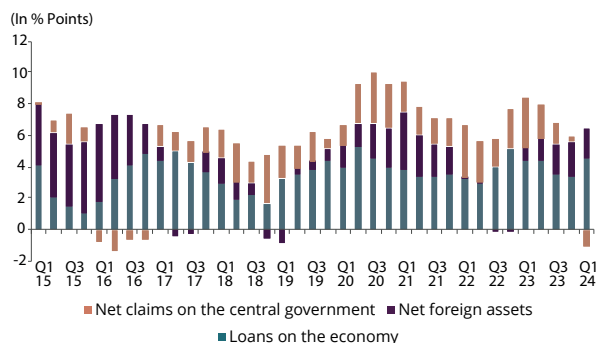
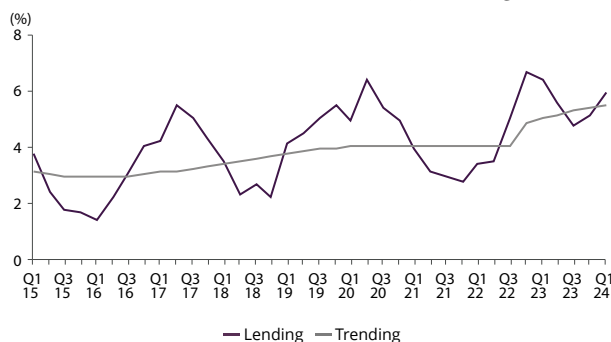


Chart 3.7: Bank credit (Year-on-year change)



In particular, the growth rate of loans to the non-financial sector slowed from 2.8 percent to 2.6 percent, due to the slowdown in the growth of loans to public companies from 31.1 percent to 22.7 percent and loans to households from 1.9 percent to 1.2 percent. Loans to private companies increased by 0.4 percent, following a fall of 0.3 percent in the previous quarter.

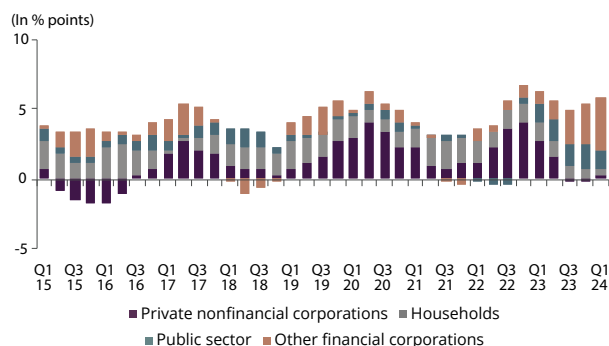
The deceleration in the growth of loans to public companies reflects in particular the slower pace of growth in cash facilities from 68.6 percent to 49.7 percent.

With regard to loans to households, lending to individual entrepreneurs fell by 5.6 percent, after an increase of 2.1 percent, while the rise in loans to individuals remained stable at 1.9 percent, with a deceleration from 1.9 percent to 1.5 percent for housing loans and a virtual stagnation at 0.5 percent for consumer loans.

The trend in loans to private companies resulted from the ease in the decline of cash facilities from 10.2 percent to 7.6 percent, while equipment loans rose by 4.6 percent after 5.5 percent.

By branch of activity, data for the first quarter of 2024 show a bigger decline in loans to the “Miscellaneous manufacturing industries” branch from 5.8 percent to 7.1 percent and to the “Food and tobacco industries” branch from 2.4 percent to 5 percent. Conversely, lending to businesses operating in the “building and public works” and “electricity, gas and water” sectors improved by 21.7 percent and 26.9 percent respectively, compared with 4.9 percent and 24.8 percent in the previous quarter.

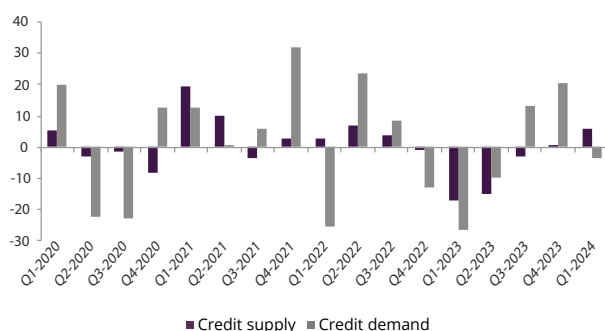
Chart 3.8: Contribution of institutional sectors to total outstanding loans



Nonperforming loans increased by 5.4 percent and their ratio to outstanding bank loans remained unchanged at 8.7 percent quarter-on-quarter. They rose by 5.3 percent for non-financial private companies and 5.4 percent for households, with ratios of 12.9 percent and 10.1 percent, respectively.

The latest data for April 2024 show an annual growth of 6 percent in bank loans, reflecting increases of 2.7 percent in loans to the non-financial sector and 28.1 percent in loans to other financial companies.

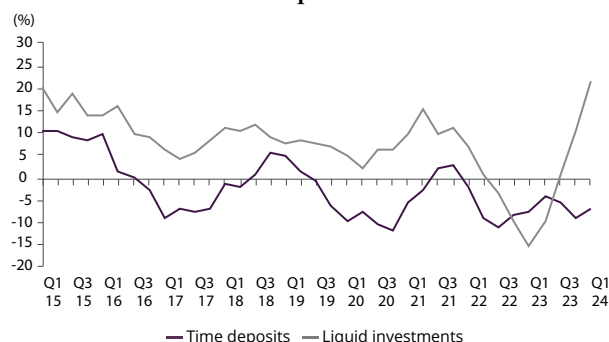
Chart 3.9: Change in supply and demand (Diffusion Index)



As regards loans granted by non-bank financial companies to the non-financial sector, they increased by 5.2 percent in the first quarter of 2024. This trend resulted from increases of 7.9 percent in loans granted by finance companies and by 3.4 percent in loans granted by microcredit associations, while loans granted by offshore banks fell by 8.1 percent.

Aggregate liquid investments rose by 21.3 percent after 10.2 percent a quarter earlier, reflecting increases in the growth rate of bond UCITS, up from 16.8 percent to 34.5, those of Treasury bills from 7.9 percent to 15.5 percent, and those of equity and diversified UCITS from 6.3 percent to 21.6 percent.

Chart 3.10: YoY change in liquid investments and time deposits



3.2 Asset prices

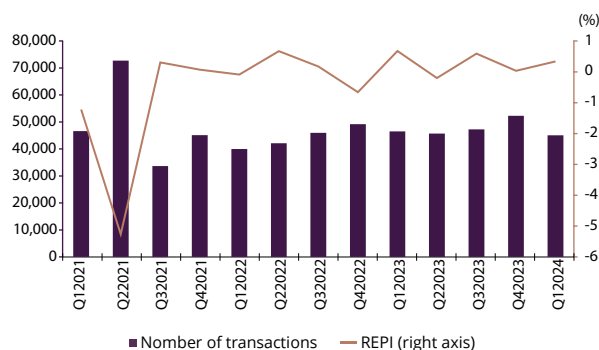
3.2.1 Real estate assets

In the first quarter of 2024, the property price index rose by 0.4 percent, with increases of 2.6 percent for commercial property and 0.2 percent for residential property as well as a fall of 0.1 percent for land. For their part, transactions dropped by 13.8 percent overall, 17 percent for commercial property, 14.3 percent for residential property and 10.4 percent for land.

Price trends by main cities were divergent. Increases ranging from 0.1 percent to 1.3 percent were observed in four cities (Fez, Casablanca, Rabat, and Agadir), with falls ranging from 0.2 percent to 2.2 percent in four other cities (Marrakech, Kenitra, Meknes and Oujda), while in Tangiers and El Jadida, prices remained virtually stable.

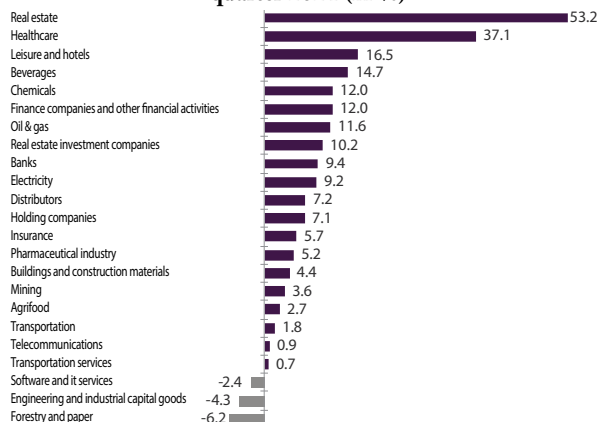
In terms of sales, apart from Fez which posted a rise of 14 percent, all the other main cities registered declines, with rates ranging from 8.9 percent in Kenitra to 28.4 percent in Marrakech.

Chart 3.11: Change in the REPI and in the number of real estate transactions



Sources: BAM and ANCFCC.

Chart 3.13: Contribution of sectoral indexes in the third quarter 2024 (in %)



Source: Bourse of Casablanca.

3.2.2 Financial assets

3.2.2.1 Shares

In the first quarter of 2024, the MASI went up 7.6 percent. This trend mainly reflects rises in the sectoral indices of the “real-estate investment and development” by 53.2 percent, of the “real-estate investment companies” by 10.2 percent and of banks by 9.4 percent. Conversely, the indices for “Forestry and paper” and “hardware, software and IT services” fell by 6.2 percent and 2.4 percent, respectively.

Chart 3.12: Change in MASI index



Source: Bourse of Casablanca.

Trading volume dropped quarter-on-quarter from 31.9 billion dirhams to 13.1 billion, mainly as a result of the sharp drop in trading on the block market, where the turnover fell from 17.6 billion to 270.6 million. Against this backdrop, market capitalisation has risen since the start of the year by 7.3 percent to 671.6 billion dirhams.

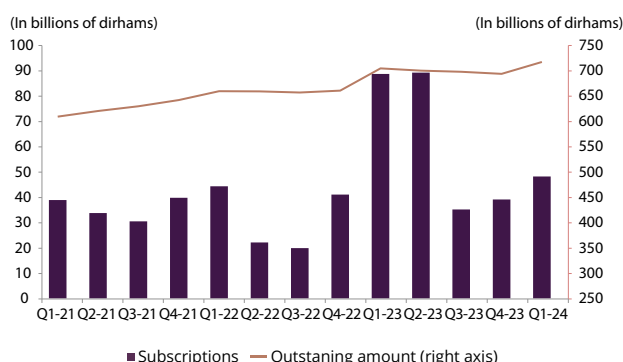
The latest available data show a slight monthly decline in the MASI of 0.1 percent in May, following a rise of 2.4 percent in April, giving a year-to-date performance of 10.1 percent. This latest monthly decline reflects falls of 7.3 percent in the indexes for the “real-estate investment companies” sector, 6.4 percent in the healthcare sector and 3.1 percent in the retail sector. By contrast, the mining and banking sectors’ indexes rose by 3.7 percent and 2.5 percent, respectively. The trading volume went up from 10.5 billion dirhams in April to 12.5 billion dirhams in May, including 7.1 billion on the block market and 5.4 billion on the central market. Market capitalization reached 692.7 billion, up 10.6 percent since December 2023.

3.2.2.2 Sovereign debt market

Treasury issuances on the domestic market amounted to 48.7 billion dirhams in the first quarter of 2024, compared with 39.5 billion in the previous quarter. Long maturities accounted for 66 percent of the issuances, medium ones for 31 percent and short ones for 3 percent. Considering repayments of 25.2 billion, outstanding Treasury bills totalled 722.9 billion, up 3.4 percent quarter-on-quarter.

The latest available data show a fall in Treasury bill issuances to 13.7 billion dirhams in April. Long maturities accounted for 50 percent of issuances, medium maturities for 44 percent and short maturities for 6 percent. Considering repayments of 14.7 billion dirhams, the outstanding amount of Treasury bills reached 722 billion dirhams, up 3.2 percent since December 2023.

Chart 3.14: Treasury bill issues (in billions of dirhams)



Source: BAM.

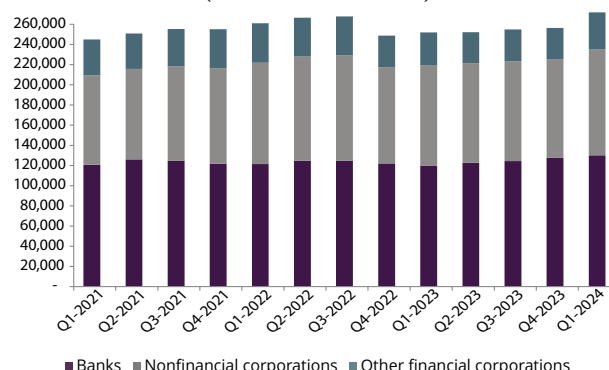
3.2.2.3 Private debt market

On the private debt market, issuances rose by 2.6 percent to 23.9 billion dirhams in the first quarter of 2024. Banks raised 12.6 billion against 12.8 billion the previous quarter and non-financial companies 8.1 billion against 5.3 billion.

By instrument, the issuance of marketable debt securities rose quarter-on-quarter by 63.4 percent to 22.4 billion, including 12.6 billion in certificates of deposit, 3.2 billion in finance company bills and 6.6 billion in commercial paper. Bond issuances by non-financial companies amounted to 1.5 billion.

The latest data available show a fall in private debt issuances to 5.9 billion in April 2024, after 9.5 billion in March. Considering repayments, the outstanding amount of these securities reached 268.1 billion dirhams, up 4.8 percent since December 2023.

Chart 3.15: Change in outstanding private debt per issuer (In billions of dirhams)



Source: Maroclear and BAM calculations.

3.2.2.4 UCITS

During the first quarter of 2024, subscriptions to UCITS fell by 17.3 percent, to 279.8 billion dirhams, and redemptions by 20.8 percent to 274.5 billion, representing a net inflow of 5.3 billion dirhams. Performance indices rose quarter-on-quarter for all funds, with rates ranging from 0.9 percent for short-term bond funds to 6.5 percent for equity funds.

The latest figures for May² show a year-to-date 10.1 percent increase in the net assets of UCITS, to 616.5 billion dirhams, including increases of 8.3 percent for diversified funds, 8.5 percent for bond funds, 10.4 percent for equity UCITS, 15.7 percent for money market funds and 38.7 percent for contractual funds.

² Data up to 24 May 2024.

4. FISCAL POLICY STANCE

Budget execution over the first five months of 2024 showed a narrowing in the budget deficit to 17.6 billion dirhams, boosted by the good performance of tax receipts, which rose by 13.9 percent, while non-tax revenues receded by 22.9 percent. On the other hand, ordinary expenditure rose by 2.9 percent to 144 billion dirhams, mainly reflecting a 3.1 percent increase in expenditure on goods and services, while subsidy costs and debt interest dropped by 9.3 percent and 0.8 percent, respectively. Under these conditions, the current balance posted a surplus of 7.7 billion, compared with a deficit of 3 billion a year earlier. Investment fell by 5.3 percent to 36.1 billion, bringing total expenditure to 180.1 billion, up 1.2 percent. The positive balance of the Treasury's special accounts dropped by 33.2 percent, to 10.8 billion.

Given the reduction of 5.2 billion in the stock of pending transactions, the cash deficit narrowed to 22.8 billion, compared with 26.6 billion at end-May 2023. This requirement was covered by net domestic resources of 15.1 billion dirhams and by a positive net external flow of 7.8 billion dirhams. Thus, the direct public debt outstanding would have increased by 4.1 percent at end-May 2024 compared with its level at end-December 2023. The Treasury's financing conditions improved relative to the same period in 2023.

4.1 Current receipts

Budget execution as at end-May 2024 showed a 10.8 percent increase in current receipts to 151.6 billion dirhams, with a 13.9 percent rise in tax revenues to 139.9 billion dirhams, driven mainly by corporate tax and VAT revenues, and a 22.9 percent contraction in non-tax revenues to 9.5 billion dirhams.

Direct tax revenues rose by 12.2 percent to 55 billion dirhams, reflecting a 16.3 percent increase, to 28.2 billion, in corporate tax revenues and a 7.8 percent rise, to 25.2 billion, in income tax revenues. This change incorporates increases of 0.5 billion in revenues from income tax on salaries, of 0.4 billion in income tax on real-estate profits and of 0.3 billion in fixed-income investment products. The increase in corporate tax was mainly due to the 2.3-billion rise in revenues from the regularization supplement, the first instalment of

0.7 billion and corporate tax withheld at source on share income, on fixed income investment products and on amounts paid to third parties by 0.9 billion.

Indirect taxes revenues rose by 15.8 percent to 67.5 billion, reflecting an increase of 17.3 percent in VAT receipts, to 54.3 billion, and of 10 percent in receipts from domestic consumer tax (DCT), to 13.3 billion. The change in the latter mainly reflects a rise of 15.2 percent to 7.3 billion in DCT on energy products. The improvement in VAT reflects increases of 35.7 percent, to 20.6 billion dirhams, in domestic VAT receipts, considering refunds of 4.3 billion compared with 4.7 billion a year earlier, and of 8.3 percent to 33.6 billion in import VAT receipts.

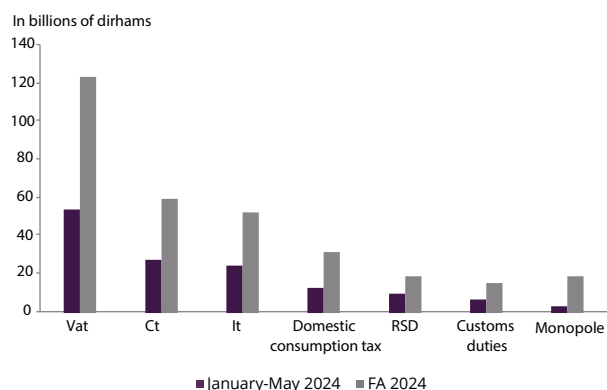
Table 4.1: Current revenues
(in billions of dirhams)*

| | Jan.- May 2023 | Jan.- May 2024 | Change in % | FA 2024 | Actual rates against the FA (%) |
|---------------------------------|----------------------|----------------------|----------------|------------|---------------------------------------|
| Current revenues | 136.9 | 151.6 | 10.8 | 371.7 | 40.8 |
| Tax revenues | 122.8 | 139.9 | 13.9 | 308.0 | 45.4 |
| - Direct taxes | 49.0 | 55.0 | 12.2 | 116.9 | 47.0 |
| Including CT | 24.2 | 28.2 | 16.3 | 59.9 | 47.0 |
| I.T | 23.4 | 25.2 | 7.8 | 52.7 | 47.8 |
| - Indirect taxes | 58.3 | 67.5 | 15.8 | 156.1 | 43.3 |
| VAT* | 46.3 | 54.3 | 17.3 | 124.2 | 43.7 |
| DCT | 12.1 | 13.3 | 10.0 | 31.9 | 41.6 |
| - Customs duties | 5.9 | 7.4 | 24.4 | 15.7 | 47.0 |
| - Registration and stamp duties | 9.5 | 10.0 | 4.9 | 19.3 | 52.0 |
| Nontax revenues | 12.4 | 9.5 | -22.9 | 60.3 | 15.8 |
| - Monopolies and shareholdings | 3.0 | 3.8 | 27.3 | 19.5 | 19.3 |
| - Other receipts | 9.4 | 5.8 | -38.6 | 40.8 | 14.1 |
| Specific financing mechanisms | 5.0 | 0.0 | 0.0 | 35.0 | 0.0 |
| TSA revenues | 1.7 | 2.2 | 26.6 | 3.5 | 62.6 |

* Taking into account 30 percent of the VAT transferred to local governments.
Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

Revenues from customs duties rose by 24.4 percent to 7.4 billion, and receipts from registration and stamp duties increased by 4.9 percent to 10 billion.

Chart 4.1: Main revenue results compared with the Finance Act



Sources: Ministry of Economy and Finance (TEFD), VAT reprocessing by BAM.

Note :

-VAT: Value added tax

- IT: Income tax

- RSD: Registration and stamp duties

- CT: Corporate tax

- DCT: Domestic consumption tax

- CD: Customs duties

As for non-tax revenues, their change reflects receipts of 5.8 billion under the heading of other revenues, against 9.4 billion at end-May 2023, including 5 billion in receipts from innovative financing. Receipts from public establishments and enterprises totalled 3.8 billion, compared with 3 billion a year earlier, paid mainly by Bank Al-Maghrib for 2.4 billion, up from 526 million, and by the ANCFCC (Land Registry) for 1 billion, relative to 2 billion the previous year.

4.2 Expenditure

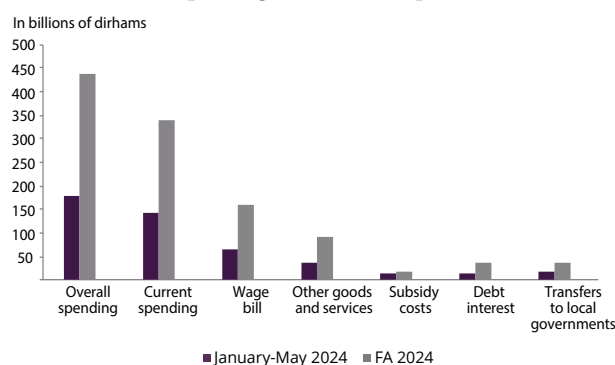
Overall expenditure rose by 1.2 percent to 180.1 billion at end-May 2024, including an increase of 2.9 percent to 144 billion in current expenditure and a decline of 5.3 percent to 36.1 billion in capital expenditure. Expenditure on goods and services amounted to 102.4 billion, up 3.1 percent, reflecting increases of 3.5 percent to 65.7 billion in the wage bill and 2.5 percent to 36.6 billion in expenditure on other goods and services. The latter include an amount of 19.7 billion in transfers to public establishments and enterprises and 2.6 billion in payments to the Treasury's special accounts, down 0.6 billion and 4.2 billion, respectively. Regarding the change in the wage bill, the part paid by the Personnel Expenses Department increased by 2.8 percent to 54.7 billion, due to the 3.6 percent increase of its structural component and a decline in back pay from 7.7 to 3.5 billion.

Table 4.2: Public expenditure execution (in billions of dirhams)*

| | Jan.- May 2023 | Jan.- May 2024 | Change in % | LA 2024 | Actual rates against the FA (%) |
|-------------------------------|----------------------|----------------------|----------------|---------|---------------------------------------|
| Overall spending | 178.1 | 180.1 | 1.2 | 444.7 | 40.5 |
| Current spending | 139.9 | 144.0 | 2.9 | 344.3 | 41.8 |
| Goods and services | 99.3 | 102.4 | 3.1 | 252.8 | 40.5 |
| Personal | 63.5 | 65.7 | 3.5 | 161.6 | 40.7 |
| Other goods and services | 35.8 | 36.6 | 2.5 | 91.2 | 40.2 |
| Debt interests | 12.5 | 12.4 | -0.8 | 37.2 | 33.2 |
| Subsidy | 14.2 | 12.9 | -9.3 | 17.0 | 76.2 |
| Transfer to local governments | 13.9 | 16.3 | 17.3 | 37.2 | 43.7 |
| Investment | 38.2 | 36.1 | -5.3 | 100.4 | 36.0 |

* Taking into account 30 percent of the VAT transferred to local governments.
Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

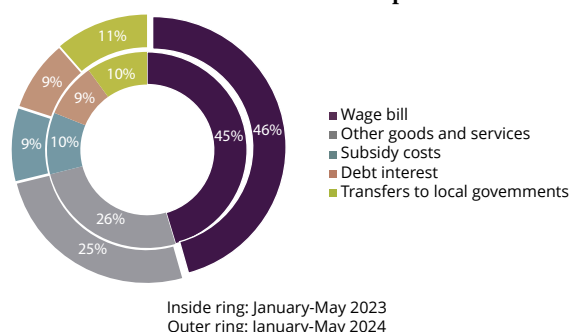
Chart 4.2: Spending execution compared to the FA



Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

Interest charges on costs of debt burden fell by 0.8 percent to 12.4 billion, with a 19.7 percent decline to 8.1 billion for domestic debt and a 78.9 percent rebound to 4.3 billion for foreign debt.

Chart 4.3: Structure of current expenditure

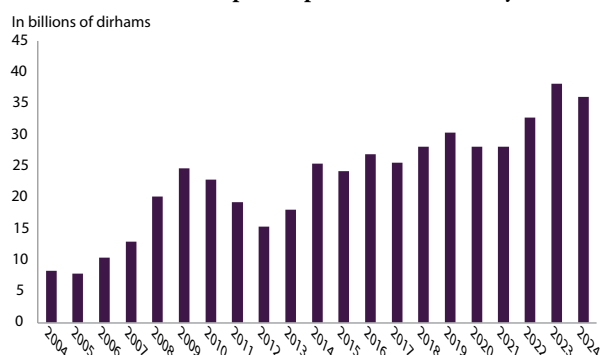


Sources: Ministry of Economy and Finance (DTFE) data, VAT restatement by BAM.

Subsidy costs dropped by 9.3 percent to 12.9 billion, representing an execution rate of 76.2 percent compared with the Finance Act (FA). This result reflects decreases of 1 billion dirhams to 7.5 billion, in the subsidy cost for butane gas; and of 1.6 billion dirhams to 0.9 billion in the subsidy cost for national soft wheat flour, while the subsidization of sugar increased by 0.7 billion, to 2.9 billion. Support for road transport professionals amounted to 1.6 billion dirhams, compared with 1 billion a year earlier. It should be noted that a partial subsidy withdrawal on butane gas has been implemented as of 20 May 2024, with a reduction of 2.5 dirhams in the subsidy for 3-kg gas bottle and 10 dirhams for the 12-kg ones.

Capital expenditure was down 5.3 percent to 36.1 billion, representing an execution rate of 36 percent compared with the FA forecasts. This includes an increase of 27.2 percent to 21.4 billion in ministries' expenditure.

Chart 4.4: Capital expenditure at end-May

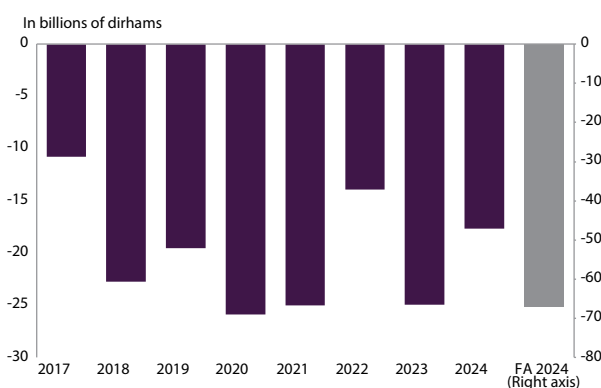


Source: Ministry of Economy and Finance (DTFE).

4.3 Treasury deficit and financing

Considering the change in revenues and expenditure, as well as the balance of the Treasury special accounts, the situation of the Treasury's expenses and resources resulted in a narrowing of the budget deficit from 24.9 billion to 17.6 billion. Moreover, the Treasury reduced its stock of pending transactions by 5.2 billion, compared with 1.7 billion, thus bringing the cash deficit to 22.8 billion, compared with 26.6 billion at end-May 2023.

Chart 4.5: Fiscal balance at end-May



Source: Ministry of Economy and Finance (DTFE).

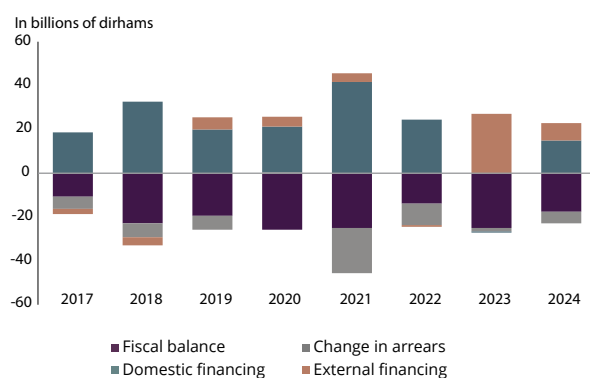
The Treasury's financing requirement was covered by net domestic resources of 15.1 billion dirhams and by a positive net external flow of 7.8 billion dirhams. The latter includes gross drawings of 12.1 billion dirhams, compared with 31.6 billion a year earlier, including 5.4 billion from the World Bank and 3.3 billion from the IMF.

Table 4.3: Deficit financing (in billions of dirhams)

| | January - May 2023 | January - May 2024 | FA 2024 |
|------------------------|--------------------------|--------------------------|---------|
| Current balance | -3.0 | 7.7 | 27.5 |
| Balance of TSA | 16.2 | 10.8 | 6.0 |
| Primary balance | -12.5 | -5.3 | -29.7 |
| Fiscal balance | -24.9 | -17.6 | -67.0 |
| Change in arrears | -1.7 | -5.2 | 0.0 |
| Financing requirements | -26.6 | -22.8 | -67.0 |
| Domestic financing | -0.5 | 15.1 | 10.8 |
| External financing | 27.2 | 7.8 | 51.1 |
| Privatization | 0.0 | 0.0 | 5.0 |

Sources: Ministry of Economy and Finance (DTFE).

As regards domestic financing, recourse to the auction market resulted in the raising of a net amount of 31.2 billion, compared with 34.2 billion the previous year. Net subscriptions included 10.5 billion in 10-year bonds, 10.3 billion in 30-year bonds, 8.4 billion in 15-year bonds and 6.4 billion in 2-year bills. At the same time, net redemptions amounted to 11.3 billion for 52-week bills and 1.3 billion for 26-week bills.

Chart 4.6: Budget balance and financing at end-May*

* Privatization receipts, limited and discontinued over time, were included in domestic financing.
Source: Ministry of Economy and Finance (DTFE).

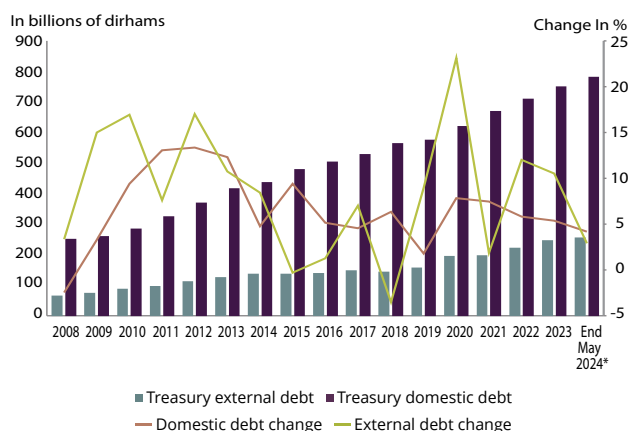
With regard to the Treasury's financing conditions on the auction market, data as at end-May show a decrease in weighted average rates compared with the same period in 2023. For medium and short maturities, the decreases reached 68 bps to 3.43 percent for 5-year bills, 61 bps to 3.24 percent for 2-year bills, 47 bps to 2.98 percent for 52-week bills, 34 bps to 2.86 percent for 26-week bills and 20 bps to 2.87 percent for 13-week bills. Similarly, for long maturities, rates fell by 96 bps to 4.04 percent for 15-year bonds, 77 bps to 4.31 percent for 20-year bonds, 70 bps to 3.77 percent for 10-year bonds and 61 bps to 4.98 percent for 30-year bonds.

Table 4.4: Treasury indebtedness (in billions of dirhams)

| | 2019 | 2020 | 2021 | 2022 | 2023 | Fin May 2024* |
|-------------------------|-------|-------|-------|-------|---------|---------------|
| Treasury external debt | 161.6 | 199.7 | 203.8 | 228.9 | 253.6 | 261.4 |
| Change in % | 9.2 | 23.6 | 2.0 | 12.3 | 10.8 | 3.1 |
| Treasury domestic debt | 585.7 | 632.9 | 681.5 | 722.9 | 763.0 | 796.6 |
| Change in % | 1.9 | 8.1 | 7.7 | 6.1 | 5.6 | 4.4 |
| Outstanding direct debt | 747.3 | 832.6 | 885.3 | 951.8 | 1 016.7 | 1 058.0 |
| Change in % | 3.4 | 11.4 | 6.3 | 7.5 | 6.8 | 4.1 |

* For the debt at the end of November 2021, it is estimated based on net financing flows generating debt.
Source: Ministry of Economy and Finance (DTFE).

Against this backdrop, direct public debt reportedly rose by 4.1 percent at end-May 2024 compared with its level at end-December 2023, with increases of 4.4 percent in its domestic component and 3.1 percent in its external one.

Chart 4.7: Treasury indebtedness

Sources: Ministry of Economy and Finance (DTFE), *BAM estimates.

5. DEMAND, SUPPLY AND LABOR MARKET

Despite a difficult external environment and unfavorable weather conditions, economic growth stood at 3.4 percent in 2023 after 1.5 percent in 2022. This change results from an improvement of 3.5 percent, after 3.4 percent, in the value added of non-agricultural activities, and a slight rebound of 1.4 percent, after a contraction of 11.3 percent, in agricultural value added. On the demand side, the domestic component contributed 3.6 percentage points to growth, while the external component made a negative contribution of 0.2 points.

In the first half of 2024, due to the persisting adverse weather conditions, agricultural value added is set to fall by an average of 6.7 percent, while the pace of non-agricultural activity is expected to accelerate to 3.7 percent, with growth standing at 2.8 percent.

On the labor market, during the first quarter of 2024, the situation was marked by a further loss of 80,000 jobs after 280,000 a year earlier, with a fall of 206,000 in agriculture and a creation of 122,000 in non-agricultural activities, more than half of which were in services. The activity rate dropped again, from 43.1 percent to 42.6 percent, and the unemployment rate rose from 12.9 percent to 13.7 percent.

5.1 Domestic demand

5.1.1 Consumption

After stagnating in 2022, household consumption grew by 3.7 percent in 2023, making a positive contribution of 2.3 percentage points to growth.

This improvement should continue in the first half of 2024, driven by declining inflation, sustained high levels of remittances, as well as improved employment in the nonagricultural sectors.

Regarding general government consumption, the figures for 2023 show an increase of 4.1 percent, after 3 percent, raising its contribution to growth from 0.6 to 0.8 percentage points.

In the first half of 2024, it is expected to maintain its upward trend, driven, particularly, by the increase in operating expenditure.

5.1.2 Investment

Investment recovered by 1.5 percent in 2023 after a 6 percent decline a year earlier, and its contribution to growth rose from -1.8 percentage points to 0.4 percentage points.

As regards the outlook, investment is set to accelerate, boosted by major public works and programs relating to the post-earthquake reconstruction plan, works linked to the hosting of major international sporting events, and the operationalization of the new direct housing assistance program.

The sub-annual indicators available at end-April confirm this upward trend in investment, as evidenced by the 6.8 percent increase in imports of capital goods and the 10.6 percent rise in equipment loans. Similarly, cement sales were up 7.3 percent at end-May.

5.2 Foreign demand

Net exports in volume terms made a negative contribution of around 0.2 percentage points to growth in 2023, compared with a positive contribution of 2.8 percentage points, as exports of goods and services decelerated from 20.5 percent to 8.8 percent and imports from 9.5 percent to 7.4 percent.

In the first half of 2024, exports of goods and services should grow, in volume terms, at a faster rate than that recorded a year earlier, boosted by improved shipments of phosphates and derivatives and of the automotive sector.

At the same time, imports are expected to accelerate, reflecting growth in purchases of capital goods, finished consumer goods and cereal supplies, as well as imports of live animals for slaughter, against the backdrop of a poor crop year.

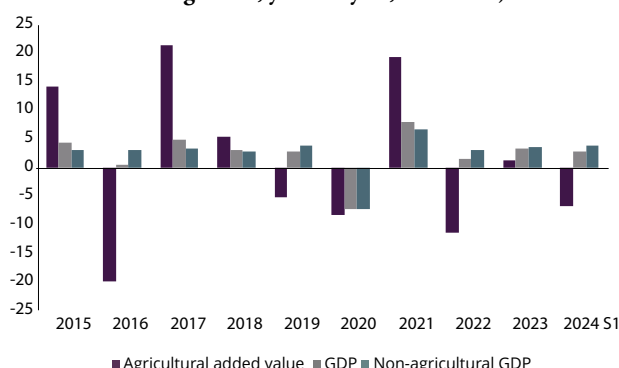
5.3 Overall supply

In 2023, economic growth accelerated to 3.4 percent from 1.5 percent a year earlier, owing to a 3.5 percent improvement in the value added of nonagricultural activities and a slight 1.4 percent increase in agricultural value added, which suffered from successive years of drought and water stress.

In the first half of 2024, GDP should grow by an average of 2.8 percent. The agricultural value added is set to contract by 6.7 percent, due to unfavorable weather conditions, with the cereal harvest estimated by the Department of Agriculture at 31.2 million quintals (MQx), down 43.3 percent on the previous year. Nonagricultural activities are expected to grow by 3.7 percent, with, in particular, a continued recovery in the manufacturing, extractive and construction industries, the recovery in the “accommodation

and catering”, and an acceleration in the growth rate of non-market services on the back of higher spending on personnel costs.

Chart 5.1: GDP by component (at previous year's prices, change in %, year-on-year, base 2014)



Sources: HCP data and BAM forecasts.

5.4 Labor market and output capacity

5.4.1 Activity and employment

Between the first quarter of 2023 and the same period in 2024, the situation on the labor market was marked by a virtually stable number of active population aged 15 and over, at almost 12 million. This includes a fall of 2.7 percent in rural areas and an increase of 1.8 percent in the cities.

Considering a 1.4 percent increase in the working-age population, the activity rate fell by 0.5 points to 42.6 percent at national level, by 1.4 points to 45.6 percent in rural areas and by 0.1 points to 41.1 percent in urban areas.

At the same time, the national economy posted a loss of 80,000 jobs, after 280,000 the previous year, and the employed active population thus decreased by 0.8 percent to 10.3 million people. Except for agriculture, which posted a fall of 206,000 jobs, the other sectors created 63,000 jobs for services, 34,000 for industry including handicrafts and 25,000 for construction and public works.

5.4.2 Unemployment and underemployment

The unemployed population rose by 6.2 percent to almost 1.6 million, and the unemployment rate increased from 12.9 percent to 13.7 percent at national level, from 17.1 percent to 17.6 percent in urban areas and from 5.7 percent to 6.8 percent in rural areas. For young people aged 15 to 24, in particular, the rate rose by 0.6 points to 35.9 percent overall and by 1.3 points to 20.2 percent in rural areas, while it fell by 1.9 points to 47.7 percent in urban areas.

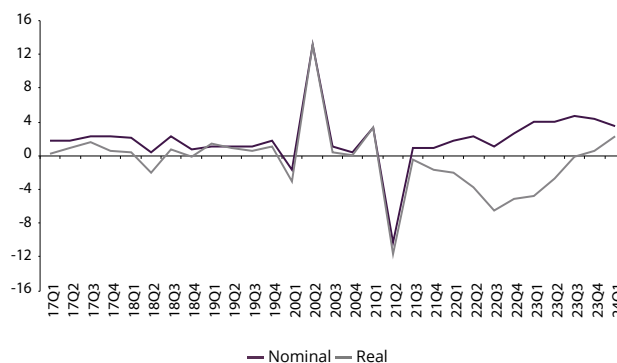
At the same time, the underemployment rate¹ stabilized at 10.3 percent nationally, with a slight decrease of 0.1 point to 9.1 percent in urban areas and a 0.4 point increase to 12.5 percent in rural areas.

5.4.3 Productivity and wages

In non-agricultural activities, apparent labor productivity, as measured by the ratio of value added to employment, would have improved by 2.2 percent in the first quarter of 2024. This trend would have resulted from increases of 3.9 percent in value added and by 1.7 percent in the number of people employed.

The average wage – calculated based on CNSS data – by dividing the total payroll by the number of employees, increased by 3.6 percent in nominal terms in the first quarter of 2024, compared with 4.0 percent a year earlier, and by 2.4 percent in real terms after a decrease of 4.7 percent.

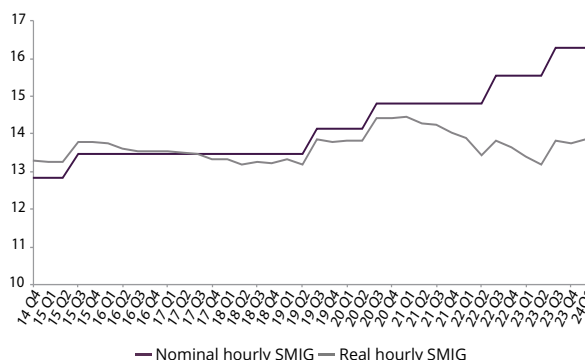
Chart 5.2: Private sector average wage index (year-on-year change in %)



Sources: CNSS data and BAM calculations.

The hourly minimum wage (SMIG) stood at 16.29 dirhams in nominal terms in the first quarter of 2024, up 4.8 percent year-on-year. Considering a 1.2 percent rise in the consumer price index, it is estimated to have increased by 3.5 percent in real terms.

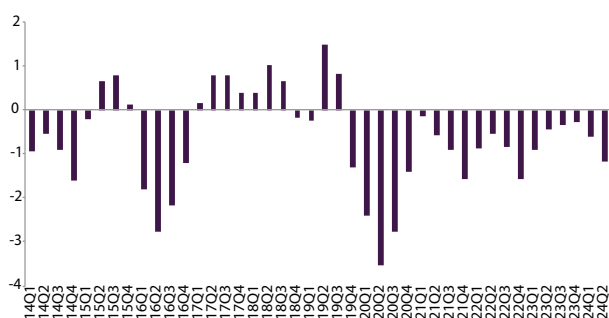
Chart 5.3: SMIG in nominal and real terms (in dirhams)



Sources: Ministry of Economic Inclusion, Small Business, Employment and Skills and BAM calculations.

Overall, the output gap is estimated to have remained negative in the first half of 2024.

¹ The underemployed population consists of persons who worked: i) less than 48 hours during the reference week, but are willing and available to take on additional shifts; or ii) more than the set threshold and are looking for another job or willing to change jobs because of mismatch with their training or qualifications or because of the insufficiency of the income provided.

Chart 5.4: Global output-gap (in percent)

Source: BAM estimates.

Table 5.1: Key indicators of the labor market

| | Q1 2023 | Q1 2024 |
|---|---------|---------|
| Participation rate (%) | 43.1 | 42.6 |
| Urban | 41.2 | 41.1 |
| Rural | 47.0 | 45.6 |
| Unemployment rate (%) | 12.9 | 13.7 |
| Youth aged 15 to 24 years old | 35.3 | 35.9 |
| Urban | 17.1 | 17.6 |
| Youth aged 15 to 24 years old | 49.6 | 47.7 |
| Rural | 5.7 | 6.8 |
| Job creation (in thousands) | -280 | -80 |
| Urban | -51 | 78 |
| Rural | -229 | -159 |
| Sectors | | |
| - Agriculture, forest and fishing | -247 | -206 |
| - Industry including handicraft | -10 | 34 |
| - Construction | 28 | 25 |
| - Services | -56 | 63 |
| Nonagricultural apparent productivity (change in %) | 4.1 | 2.2 |
| Average wage index (change in %) | | |
| Nominal | 4.0 | 3.6 |
| Real | -4.7 | 2.4 |

Sources: HPC, CNSS and BAM calculations.

6. RECENT INFLATION TRENDS

In line with the forecast published in the March MPR, inflation has continued to slow, albeit faster than expected. It fell from 3.8 percent in the fourth quarter of 2023 to 1.2 percent in the first quarter of 2024 and then to 0.3 percent on average in April and May, bringing its average rate for the first five months of 2024 to 0.9 percent. This deceleration is essentially attributable to an accentuation of the fall in volatile food prices to -7.6 percent on average in April and May, after -1.2 percent in the first quarter. On the other hand, and in connection with the start of the subsidy phase-out for butane gas from 20 May, regulated tariffs rose by 0.5 percent, after stagnating in the first quarter of 2024, while prices for fuels and lubricants rose by 6.6 percent compared with a fall of 1.1 percent. Core inflation remained moderate, while trending downwards, standing at 2 percent instead of 2.2 percent.

In the short term, inflation is expected continue its downward trend, averaging 0.7 percent in the second quarter, but its underlying component is set to remain at around 2 percent.

6.1 Inflation trends

Inflation fell from 1.2 percent in the first quarter of 2024 to an average of 0.3 percent in April and May. This slowdown is largely due to the sharper drop in volatile food prices and the deceleration of core inflation. However, it was mitigated by the rise in the price of fuels and lubricants, after the decline seen a quarter earlier.

6.1.1. Prices of goods excluded from core inflation

After eight consecutive quarters of strong rises, volatile food products prices fell by 1.2 percent year-on-year in the first quarter of 2024, before dropping by a further 7.6 percent on average in April and May. This fall was driven mainly by price declines of 4.6 percent for “poultry and rabbit”, after an increase of 8.2 percent, and of 4.8 percent for “eggs”, after an increase of 7 percent, as well as by a further decline in “citrus fruit” prices by 1.6 percent to 20.5 percent.

Overall, this component made a negative contribution to inflation, of -1.1 percentage points, compared with -0.2 points on average in the first quarter of 2024.

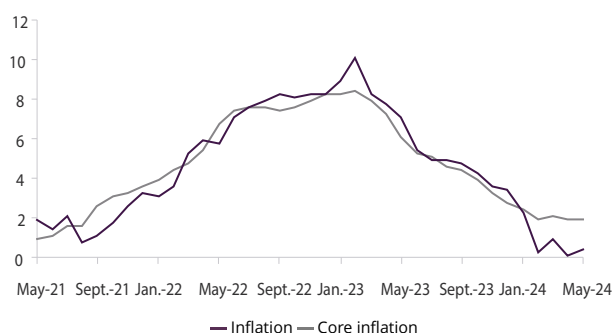
Table 6.1: Inflation and its components

| (In %) | Monthly change | | | YoY change | | |
|---|----------------|---------|--------|------------|---------|--------|
| | March 24 | Apr. 24 | May 24 | March 24 | Apr. 24 | May 24 |
| Inflation | 0.7 | 0.6 | -0.2 | 0.9 | 0.2 | 0.4 |
| - Volatile food prices | 4.3 | 2.7 | -1.9 | -2.7 | -8.0 | -7.2 |
| - Regulated products | 0.0 | 0.0 | 1.1 | -0.1 | -0.1 | 1.0 |
| - Fuels and lubricants | 0.0 | 1.4 | -1.8 | 1.5 | 6.0 | 7.2 |
| Core inflation | 0.2 | 0.2 | 0.0 | 2.1 | 2.0 | 1.9 |
| Food products | 0.4 | 0.2 | 0.0 | 2.8 | 2.5 | 2.4 |
| - Clothing and footwear | 0.4 | 0.3 | 0.0 | 2.7 | 1.9 | 2.0 |
| - Housing, water, gas, electricity and other fuels ¹ | 0.0 | 0.2 | 0.1 | 1.2 | 1.4 | 1.3 |
| - Furniture, household equipment and routine house maintenance | 0.1 | 0.1 | -0.1 | 1.4 | 1.4 | 1.1 |
| - Health ¹ | -0.2 | -0.2 | -0.1 | 2.8 | 2.0 | 1.9 |
| - Transportation ² | 0.2 | 0.5 | 0.2 | 1.5 | 2.0 | 1.8 |
| - Communication | 0.0 | 0.0 | -0.1 | -0.2 | -0.2 | -0.3 |
| - Entertainment and culture ¹ | 0.4 | 0.3 | -0.1 | -0.7 | -0.4 | -0.2 |
| - Education | 0.0 | 0.0 | 0.0 | 2.1 | 2.1 | 2.1 |
| - Restaurants and hotels | -0.1 | 0.0 | 0.7 | 3.3 | 2.9 | 3.2 |
| - Miscellaneous goods and services ¹ | 0.4 | 0.4 | 0.1 | 2.3 | 2.2 | 2.2 |

¹ Excluding regulated products.

² Excluding fuels and lubricants and regulated products.

Sources: HCP, and BAM calculations.

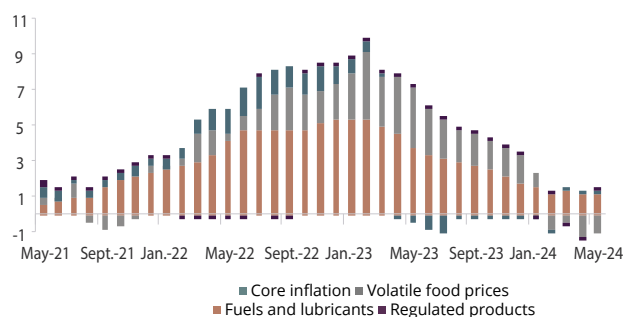
Chart 6.1: Inflation and core inflation, (YoY, %)

Sources: HCP and BAM calculations.

After stagnating in the first quarter of 2024, regulated tariffs rose by an average of 0.5 percent year-on-year in April and May, driven by higher butane gas prices.

This was due to the subsidy phase-out for this product's prices, which began on 20 May. The subsidy was reduced by 2.5 dirhams for 3-kg gas bottles and 10 dirhams for 12-kg bottles¹.

Overall, regulated tariffs contributed 0.1 percentage points to average inflation in April and May.

Chart 6.2: Price contributions of major components to inflation (in percentage points)

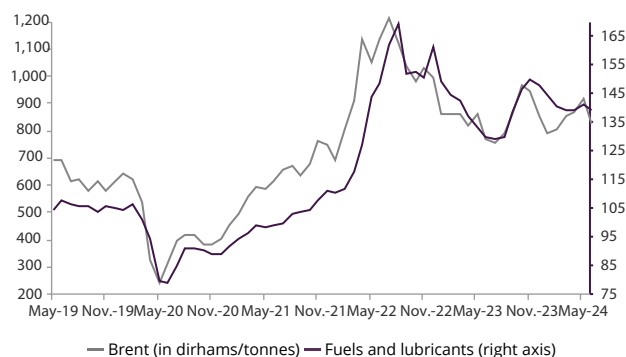
Sources: HCP and BAM calculations.

Prices of fuels and lubricants edged up by 0.2 percent on average in April and May compared with their level in the first quarter, driven by prices for petroleum products. In particular, the price of Brent crude rose from USD83.1/bl to USD86/bl. In addition, the national currency depreciated slightly

¹ According to the press release issued by the Ministry of the Economy and Finance on 19 May 2024.

against the US dollar by an average of 0.2 percent in April and May compared with the first quarter.

Year-on-year, fuel and lubricant prices rose by an average of 6.6 percent in April and May, after falling by 1.1 percent in the first quarter. Their contribution to inflation stood at 0.2 percentage points, compared with almost zero in the first three months of the year.

Chart 6.3: Brent crude prices and price index of fuels and lubricants (base 100 in 2017)

Sources: World Bank, HCP, and BAM calculations.

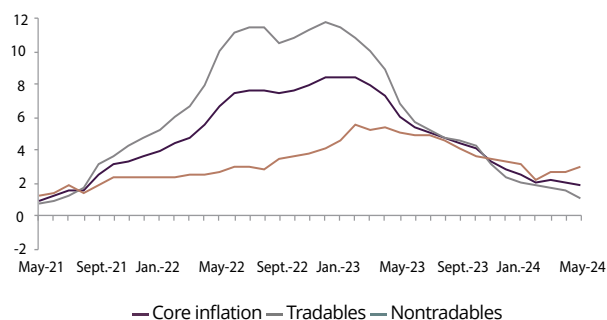
6.1.2. Core inflation

Core inflation remains moderate, while trending downwards. It averaged 2 percent in April and May, compared with 2.2 percent in the first quarter. This slowdown is largely due to the fall in the food component, from 3 percent to 2.5 percent, with the growth rate of prices dropping from 4.9 percent to 2.4 percent for "oils", from 18.4 percent to 10 percent for "canned vegetables" and from 3.1 percent to 1.5 percent for "dairy products".

The non-food component of core inflation rose at the same rate as in the first quarter, or 1.6 percent, as the deceleration of the rise in prices of "clothing and footwear" was offset by the easing of the fall in the prices of "leisure and culture"² and the rise in the prices of products under the heading "housing, water, gas, electricity and other fuels"².

² Excluding regulated products.

Chart 6.4: Change in the price indexes of tradables and nontradables (YoY)



Sources: HCP, and BAM calculations.

The breakdown of the products included in the core inflation indicator basket into tradable and non-tradable products shows that its slowdown concerned exclusively its tradable component.

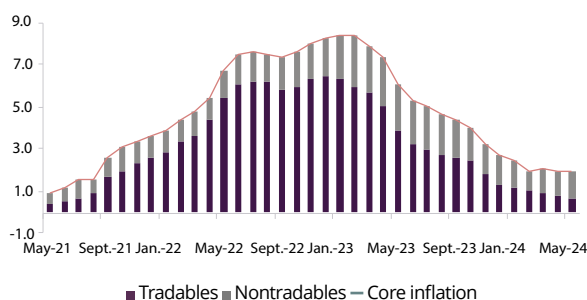
Table 6.2: Change in the price indexes of tradables and nontradables

| | Monthly change | | | YoY change | | |
|----------------|----------------|---------|--------|------------|---------|--------|
| | March 24 | Apr. 24 | May 24 | March 24 | Apr. 24 | May 24 |
| Tradables | 0.2 | 0.0 | -0.4 | 1.7 | 1.5 | 1.1 |
| Nontradables | 0.3 | 0.4 | 0.5 | 2.6 | 2.7 | 3.0 |
| Core inflation | 0.2 | 0.2 | 0.0 | 2.1 | 2.0 | 1.9 |

Sources: HCP, and BAM calculations.

Prices of tradable goods rose by 1.3 percent on average in April and May, instead of 1.9 percent in the first quarter, amid a further decline of external pressures with, in particular, a slight deceleration in inflation in the euro area well as a year-on-year fall in the FAO index of food commodities.

Chart 6.5: Contribution of tradables and nontradables to core inflation (in percentage points)

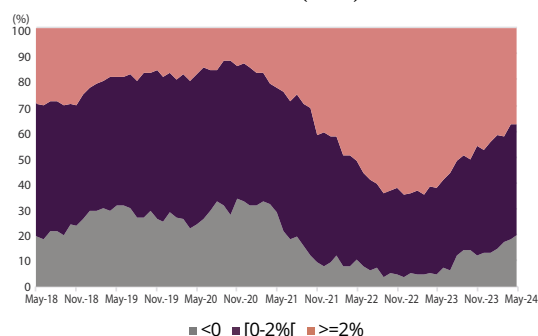


Sources: HCP, and BAM calculations.

On the other hand, the growth rate in the prices of non-tradable goods and services went up slightly, averaging 2.8 percent in April and May, after 2.6 percent in the first quarter.

The slowdown in CPI basket prices is spreading gradually. The share of products whose prices rose by more than 2 percent fell from an average of 43 percent in the first quarter to an average of 37 percent in April and May.

Chart 6.6: Distribution of price trends for different sections of the CPI (in %)



Sources: HCP, and BAM calculations.

6.2 Short-term outlook for inflation

Inflation is set to continue to slow in the second quarter, falling to 0.7 percent after 1.2 percent in the first quarter of the year.

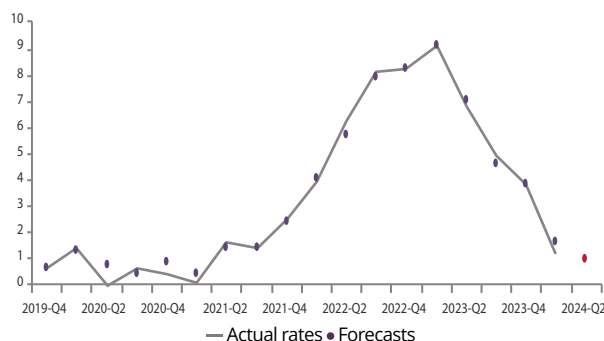
This trend is likely to be due, exclusively, to the projected further drop in volatile food prices. Data relating to wholesale market prices indicate an accentuation of the year-on-year decline of prices in this product category, from -1.2 percent to -5.3 percent.

By contrast, prices of fuels and lubricants are expected to rise by 6.3 percent in the second quarter, after falling by an average of 1.1 percent in the first quarter, driven by trends in the international price of petroleum products.

Similarly, regulated tariffs are projected to rise by 0.9 percent, reflecting the direct effect of the start of subsidy phase-out for butane gas.

Core inflation is expected to be close to the rate recorded a quarter earlier, standing at around 2 percent.

Chart 6.7: Inflation short-term forecasts and actual rates

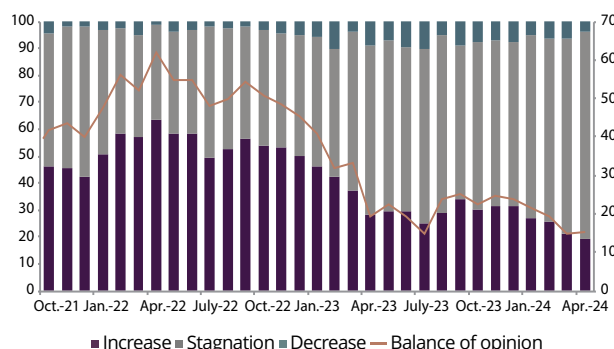


Sources: HCP data, and BAM calculations.

6.3 Inflation expectations

The results of Bank Al-Maghrib's business survey in industry for April 2024 show that 77 percent of respondents expect inflation to stagnate over the next three months, 19 percent expect it to rise and 4 percent expect it to fall. The balance of opinion thus stands at 15 percent.

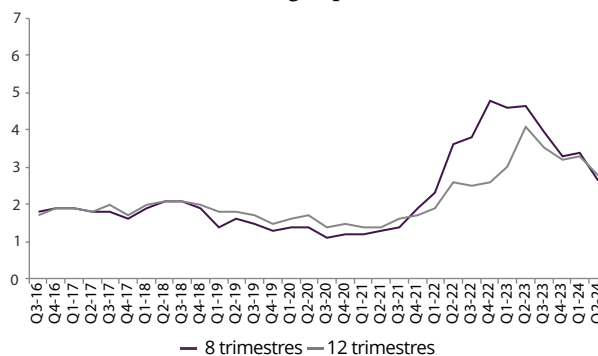
Chart 6.8: Business leaders' expectations for inflation over the next three month (in %)



Source: BAM monthly business survey.

In addition, Bank Al-Maghrib's survey of inflation expectations, conducted among financial sector experts for the second quarter of 2024, shows that the latter forecast inflation to average 2.7 percent, instead of 3.4 percent one quarter earlier, over the next eight quarters and 2.8 percent, after 3.3 percent, over the next 12 quarters.

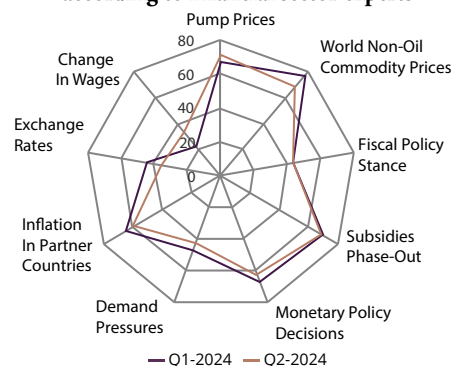
Chart 6.9: Inflation expectations by financial sector experts over the next eight quarters (in %)



Source: BAM's Quarterly Inflation Expectations Survey.

Respondents expect inflation trends over the next eight quarters to be mainly linked to those of pump prices, world non-oil commodity prices, as well as to the subsidy phaseout.

Chart 6.10: Determinants of the future evolution of inflation according to financial sector experts



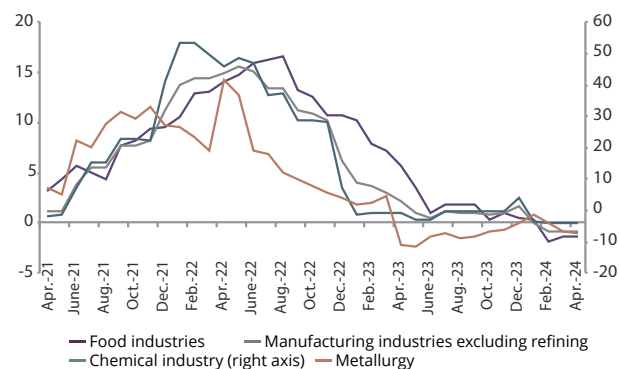
Source: BAM Quarterly Inflation Expectations Survey.

6.4 Producer prices

Producer prices in manufacturing industries excluding petroleum refining rose by 0.1 percent month-on-month in April, driven mainly by a 1.3 percent rise in producer prices in the “clothing industry” and a 0.7 percent rise in the “manufacture of other non-metallic mineral products”. Conversely, producer prices fell by 1.7 percent in the “woodworking and manufacture of wood products” branch.

Year-on-year, the fall in producer prices excluding refining intensified, from -0.8 percent in March to -1 percent in April.

Chart 6.11: Main industrial producer price indices, YoY change (in %)



Source: HCP.

7. MEDIUM-TERM OUTLOOK

Summary

Against a backdrop marked by elevated levels of uncertainty, linked in particular to the persistence of geopolitical tensions and the organization of elections in many countries, global growth is set to slow, albeit less rapidly than initially forecast, from 3.2 percent in 2023 to 2.8 percent in 2024, and then to 2.7 percent in 2025. In the United States, after the notable resilience observed in 2023, growth would reach 2.1 percent this year and 1.4 percent in 2025. In the euro area, growth is expected to remain weak, standing at 0.9 percent in 2024, before accelerating to 1.8 percent in 2025. In the United Kingdom, after a slight recession in the second half of 2023, the pace of activity should rise to 0.8 percent in 2024 and then to 1.5 percent in 2025. In Japan, growth is set to slow to 0.3 percent in 2024, before rising to 1.2 percent in 2025.

In the main emerging countries, after GDP growth of 5.2 percent in 2023, the Chinese economy growth rate is expected to decelerate to 5 percent in 2024 and 4.8 percent in 2025, impacted in particular by persistent difficulties in the property market and high levels of local communes' debt. By contrast, the Indian economy is expected to remain robust over the medium term, boosted by the momentum in public investment. In Brazil, the economy is projected to grow by no more than 1.8 percent this year and 1.7 percent in 2025, while in Russia, growth is forecast at 2.7 percent in 2024 and 0.3 percent in 2025.

On the commodity markets, the price of Brent crude is expected to rise to an average of USD84.7/bl this year, then to USD86 in 2025. Coal prices are expected to continue their downward trend in 2024, due to a reduction in demand as gas prices continue to fall, before recovering in 2025. As for natural gas on the European market, World Bank projections in April point to a contraction in its price in 2024, before a slight appreciation in 2025.

In the case of phosphate and derivatives, DAP and TSP prices are expected to fall in 2024, before rebounding in 2025. As for foodstuffs, the FAO index should fall by 4.6 percent in 2024, before rising by 4.3 percent in 2025, following the 13.7 percent contraction posted in 2023.

Under these conditions, inflationary pressures should continue to ease over the forecast horizon. In the United States, inflation is projected to continue to slow down, reflecting the downward trend in its core component. A similar trend is also expected in the euro area.

Against this backdrop, the ECB decided at its last meeting to cut its three key interest rates by 25 basis points (bps) for the first time since 2019, while the FED kept its target range for the federal funds rate unchanged for the 7th time in a row at its meeting on 11 and 12 June.

At the national level, 2024 should see a recovery in foreign trade in goods, with a 4.4 percent increase in exports and a 6.1 percent rise in imports, as well as continued momentum in travel receipts and remittances. The current account deficit, thus, is set to close the year at 1.7 percent of GDP, after 0.6 percent in 2023. In addition, FDI receipts should increase to the equivalent of 3.1 percent of GDP, compared with 2.4 percent in 2023.

In 2025, exports should improve by 8.9 percent and imports by 9.7 percent, in parallel with increases of 5.8 percent in travel receipts and 5.3 percent in remittances. Thus, the current account deficit is expected to widen to 2.7 percent of GDP, while FDI receipts should amount to the equivalent of 3.2 percent of GDP.

Assuming that the planned external financing is secured, official reserve assets would stand at 382 billion dirhams at the end of 2024 and 395.6 billion dirhams by end 2025. This would cover imports of goods and services for 5 months and 8 days and 5 months and 13 days, respectively.

As regards monetary conditions, after the deceleration of 2023, the growth rate of bank credit to the non-financial sector is expected to accelerate to 4.4 percent in 2024 and 5.2 percent in 2025. The real effective exchange rate should continue to appreciate over the medium term, albeit at a slightly slower pace.

As regards public finance, the budget deficit is set to stabilise at 4.4 percent of GDP in 2024, the same level as in 2023. This is due to the integration of additional general budget appropriations of 14 billion dirhams, of which 6.5 billion will be used to cover the increase in public sector salaries decided as part of the social dialogue, and an increase in the forecast tax revenues, taking into account Bank Al Maghrib's new macroeconomic projections and budget implementation to end-April 2024. In 2025, the budget deficit should ease to 4.1 percent of GDP, instead of the 4 percent forecast in March, reflecting not only the integration of the impact of the social dialogue agreement, but also a better performance in tax receipts, combined with a decline in subsidization costs and capital expenditure.

As for economic growth, after accelerating to 3.4 percent in 2023, it should slow to 2.8 percent in 2024, before rebounding to 4.5 percent in 2025. On the supply side, this trend reflects a 6.9 percent contraction in agricultural value added in 2024, taking into account a cereal harvest of 31.2 MQx according to the Department of Agriculture's estimate, before rebounding by 8.6 percent in 2025, assuming a return to an average cereal harvest. The growth rate of non-agricultural activities is set to gradually improve, reaching 3.8 percent in 2024 and 4.1 percent in 2025. On the demand side, the domestic component should continue to consolidate, while the contribution of net exports is likely to remain stable.

Against this backdrop and after the high rates of 6.6 percent in 2022 and 6.1 percent in 2023, inflation is expected to slow sharply to 1.5 percent in 2024 before reaching 2.7 percent in 2025. Its core component should slow gradually, from 5.6 percent in 2023 to 2.3 percent in 2024, reflecting in particular a fall in imported inflation, and should remain around this level in 2025.

7.1 Underlying assumptions

Moderation in the global economy in 2024 and 2025

The global economy is set to decelerate over the forecast horizon, albeit less rapidly than expected in March, with growth of 2.8 percent in 2024 and 2.7 percent in 2025, following 3.2 percent in 2023.

In the United States, the economic outlook was revised upwards for 2024, following a solid growth posted in the first quarter. After the notable resilience shown in 2023, growth is projected at 2.1 percent for the whole year, then at 1.4 percent in 2025, mainly reflecting a slowdown in consumer spending. In the euro area, despite better-than-expected indicators at the start of the year, GDP is forecast to grow by less than 1 percent in 2024, before accelerating to 1.8 percent in 2025. Activity in the euro area continues to be slowed down by the German economy, which is suffering in particular from the difficulties facing its automotive sector. In the United Kingdom, after a slight recession in 2023, growth should accelerate to 0.8 percent in 2024 and then to 1.5 percent in 2025, supported by a rebound in consumption. Meanwhile, the Japanese economy is set to slow to 0.3 percent in 2024, before rising to 1.2 percent in 2025, driven by a rebound in domestic demand in relation to wage increases.

In the main emerging countries, China is likely to reach the 5 percent growth target this year, thanks in particular to the improvement in foreign demand, but a deceleration is expected over the next few years. The pace of growth of the Chinese economy is expected to stand at 4.8 percent in 2025, mainly due to difficulties in the property sector and high levels of local communes' debt, as well as the recently announced increase in US customs duties on Chinese imports (notably on electric vehicles). As for the Indian economy, it should remain strong in the medium term thanks to public investment. After expanding by 7.7 percent in 2023, its GDP is projected to grow by 6.8 percent in 2024 and 6.6 percent in 2025. The re-election of the incumbent Prime Minister will enable the country to continue its reform program in the areas of the budget, information technology and agriculture. In addition, the growth of the working-age population should support the medium-term outlook. In Brazil, the economy is expected to grow by no more than 1.8 percent this year and 1.7 percent in 2025. In Russia, GDP grew significantly in the first quarter, driven by strong demand and war-related budget spending. Growth is forecast to rise to 2.7 percent in 2024 before slowing down to 0.3 percent in 2025, mainly due to international sanctions.

Chart 7.1: Growth in the euro area

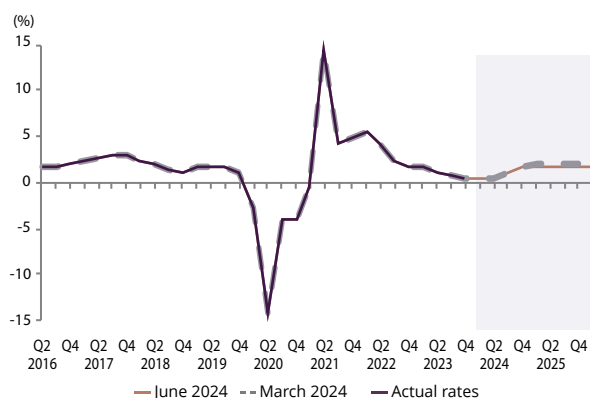
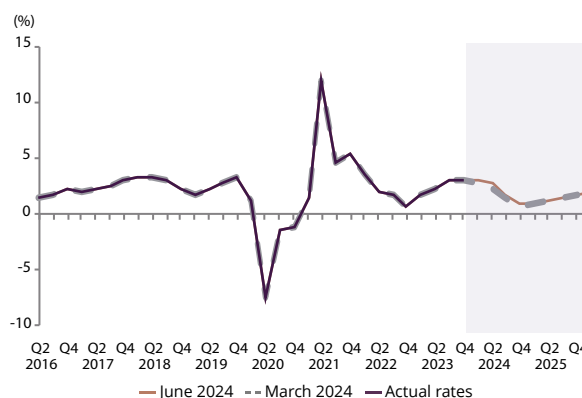


Chart 7.2: Growth in the USA



Source: GPMN, May 2024

Contrasting trends in commodity prices over the forecast horizon and overall slowdown in inflation

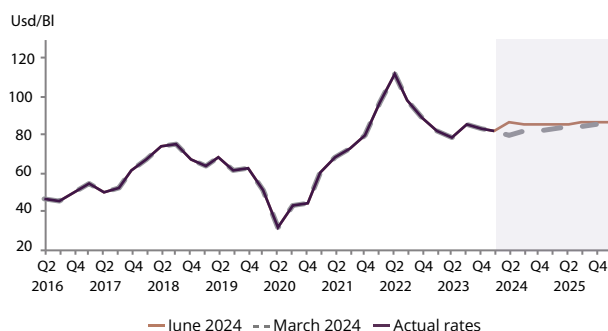
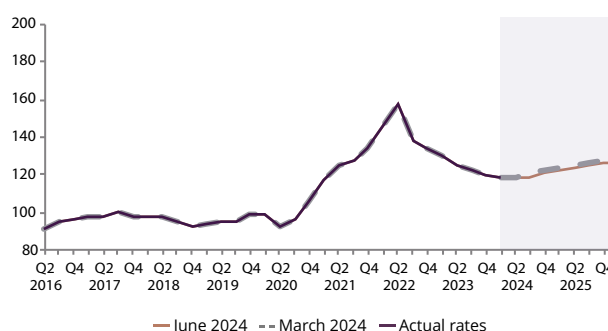
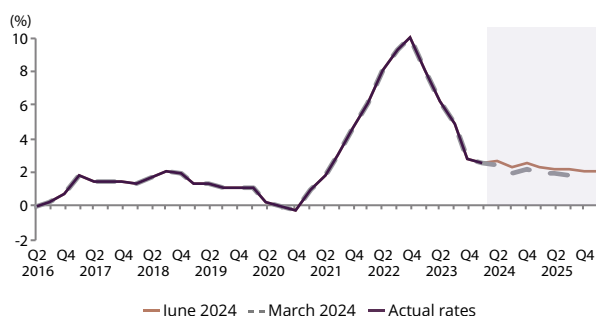
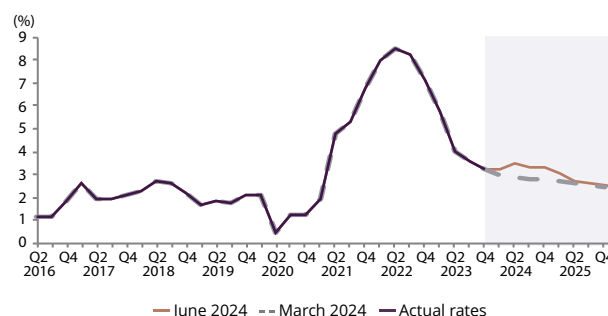
As regards commodities, the price of Brent crude is expected to rise to an average of USD84.7 per barrel in 2024, reflecting an increase in global demand and an extension of OPEC+ production cuts. In 2025, it should continue to rise, reaching USD86 a barrel. For coal, its price is expected to remain on the downtrend that began in 2023, reaching an average of USD113.2 per ton in 2024, thanks to a reduction in demand as gas prices continue to fall and renewable energy production improves. It should, however, recover to USD118.8 per ton in 2025. Similarly, the price of natural gas on the European market will continue to fall in 2024 to USD9.5/MMBtu, before rising slightly to USD10.5 in 2025, according to World Bank projections of April 2024.

Following the fall in prices for Moroccan phosphate and derivatives¹ in 2023, due in particular to lower input prices, the Commodities Research Unit (CRU) expects this trend to continue in 2024, in addition to a recovery of DAP and TSP prices in 2025. The supply of phosphate from China, combined with falling prices for inputs, particularly ammonia, and for agricultural products, should lead to a contraction in prices of phosphate and derivatives in 2024. However, the rise in sulphur prices should contribute to an increase in phosphate fertiliser prices in 2025. Prices for derivatives of Moroccan origin should fall from USD591/t in 2023 to USD564/t in 2024 for DAP, and from USD449/t to USD421/t for TSP. In 2025, this trend should reverse, with prices expected to rise to USD592/t for DAP and USD478/t for TSP. As for Moroccan raw phosphate, its price is set to go from USD271/t in 2023 to USD230/t in 2024, then to USD212/t in 2025.

With regard to food prices, after the 13.7 percent contraction observed in 2023, the FAO index should continue to decline, dropping by 4.6 percent in 2024, before rising by 4.3 percent in 2025. For US durum wheat in particular, although 6.3 percent more expensive in May than in April due to unfavourable weather conditions in the United States, it is down 21.3 percent year-on-year. According to the World Bank's projections of April 2024, its prices are set to fall by 14.8 percent in 2024 and by 1.7 percent in 2025.

¹ Source: CRU (Commodities Research Unit)

Against this backdrop, and despite persistent inflationary pressures linked in particular to disruptions in global supply chains and extreme weather conditions, global inflation should continue to decelerate over the medium term, reaching 3.5 percent in 2024 and 3.1 percent in 2025. In the euro area, inflation should continue to slow, albeit at a slower pace than forecast in March. It is expected to fall from 5.4 percent in 2023 to 2.5 percent in 2024 and then to 2.2 percent in 2025. Similarly, in the United States, inflation is set to continue its downward trend, falling from 4.1 percent in 2023 to 3.3 percent in 2024, revised upwards by 0.4 pps, mainly due to housing prices and rents' resistance to the decline. Conversely, inflation in China should average 0.4 percent this year before accelerating to 1.9 percent in 2025 as demand continues to recover.

Chart 7.3: Price of Brent**Chart 7.4: FAO food price index (2014-2016=100)****Chart 7.5: Inflation in the euro area****Chart 7.6: Inflation in the United states**

Source: GPMN, May 2024

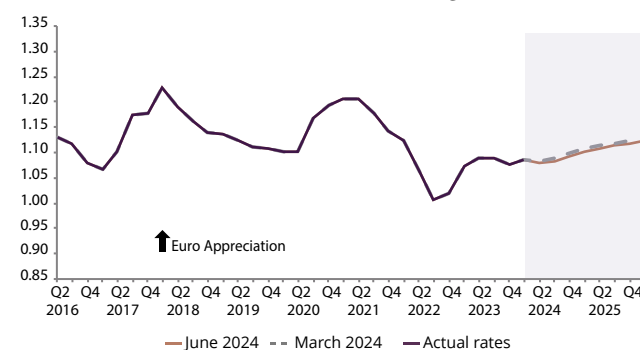
Key rates cut by the ECB and maintained by the FED

At the end of its meeting on 6 June, the ECB decided to cut its three key interest rates by 25 bps, bringing the interest rate on the main refinancing operations to 4.25 percent, the interest rate on the marginal lending facility to 4.50 percent and the interest rate on the deposit facility to 3.75 percent. It also indicated that its Asset Purchase Programme (APP) is contracting at a measured and predictable pace, with the Eurosystem no longer reinvesting principal repayments on maturing securities. As for the Pandemic Emergency Purchase Program (PEPP), the Council intends to continue reinvesting all principal repayments on maturing securities. It plans to reduce the portfolio of this programme by an average of €7.5 billion per month in the second half of the year, before ending reinvestments at the end of 2024.

At its meeting on 11 and 12 June, the FED decided to keep its target range unchanged at [5.25 percent-5.50 percent] for the 7th time in a row. According to the Committee, economic activity continued to expand at a sustained pace. Job creations remained strong, and unemployment rate low. Inflation has eased over the past year but remains high. Against this backdrop, it considers that it would not be appropriate to reduce the target range until it is confident that inflation is moving towards its 2 percent target on a sustainable basis. At the same time, it will continue to reduce holdings of Treasury bonds and mortgage-backed securities.

In international exchange markets, particularly in view of the expected trend in the key interest rate differential over the forecast horizon, the euro should continue to appreciate against the dollar, rising by 0.4 percent to USD1.09 on average in 2024 and by 2.3 percent to USD1.11 in 2025.

Chart 7.7: USD/EUR exchange rate



Source: GPMN, May 2024.

Cereal production of 31.2 MQx for the 2023/2024 crop year and average harvest for 2024/2025

The cereal harvest for the 2023/2024 crop year is estimated by the Department of Agriculture at 31.2 million quintals (MQx), down 43.3 percent compared to the previous crop year and 44.5 percent compared to the last five years' average. For non-cereal crops, improved weather conditions from February onwards should encourage the development of arboriculture and vegetable crops. Against this background, the forecast for agricultural growth in 2024 is likely to fall by 6.9 percent, instead of the 6.4 percent retained in the March forecast.

For the 2024/2025 crop year, under the assumption of an average cereal production of 55 MQx² and a trend development of other crops, agricultural value added should increase by 8.6 percent in 2025 instead of the 12.8 percent considered in the previous exercise.

7.2 Macroeconomic projections

Medium-term recovery of foreign trade and consolidation of high levels of travel receipts and remittances

Taking into account the new assumptions concerning the international environment, macroeconomic forecasts and actual figures to end-April 2024, the current account deficit should rise from 0.6 percent of GDP in 2023 to 1.7 percent in 2024 and 2.7 percent in 2025.

² This assumption is based on the average of the last five observed harvests.

In 2024, exports are projected to improve by 4.4 percent, driven mainly by a 10.7 percent rise in sales in the automotive sector, including increases in the wiring and car manufacturing sectors, and a 1.9 percent³ rise in sales of phosphate and derivatives, due in particular to the expected increase in shipped quantities. At the same time, imports are projected to rise by 6.1 percent, mainly due to higher purchases of capital and consumer goods and semi-finished products, while the energy bill is expected to ease by 2.2 percent. Travel receipts are set to increase by 5.8 percent, while remittances should rise by 1.9 percent. FDI receipts are expected to rise to 46.6 billion dirhams, equivalent to 3.1 percent of GDP in 2024, after 2.4 percent in 2023.

Assuming that the planned external financing is secured, official reserve assets would increase to 382 billion dirhams by the end of 2024, equivalent to 5 months and 8 days of imports of goods and services.

In 2025, exports are projected to grow by 8.9 percent, mainly reflecting a 13.2 percent³ improvement in sales of phosphate and derivatives and a 12.8 percent rise in shipments from the automotive sector, in line with the dynamic performance of the construction segment. Imports are expected to rise by 9.7 percent, driven mainly by an increase in purchases of capital goods and finished consumer goods, as well as a 4.9 percent rise in the energy bill. At the same time, travel receipts and remittances should improve by 5.8 percent and 5.3 percent respectively, and FDI receipts should increase to the equivalent of 3.2 percent of GDP in 2025.

Taking into account the Treasury's projected external borrowing assumptions and projected repayments, official reserve assets (ORA) are expected to stand at 395.6 billion by the end of 2025, representing the equivalent of 5 months and 13 days of goods and services imports.

Table 7.1: Main components of the balance of payments

| Change in %, unless otherwise indicated | Actual rates | | | | | | Forecasts | | Differentials (June/March) | |
|--|--------------|------|-------|------|-------|------|-----------|------|----------------------------|------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2024 | 2025 |
| Exports of goods (FOB) | 10.7 | 3.3 | -7.5 | 25.2 | 30.1 | 0.4 | 4.4 | 8.9 | 0.2 | 0.4 |
| Imports of goods (CIF) | 9.9 | 2.0 | -13.9 | 25.0 | 39.5 | -2.9 | 6.1 | 9.7 | -1.3 | 2.0 |
| Travel receipts | 1.2 | 7.8 | -53.7 | -5.1 | 171.5 | 11.5 | 5.8 | 5.8 | -1.8 | -1.5 |
| Remittances | -1.5 | 0.1 | 4.8 | 40.1 | 16.0 | 4.1 | 1.9 | 5.3 | 0.7 | 0.3 |
| Current account balance (% of GDP) | -4.9 | -3.4 | -1.2 | -2.3 | -3.6 | -0.6 | -1.7 | -2.7 | 0.6 | 0.1 |
| Official reserve assets in months of imports of goods and services | 5.4 | 6.9 | 7.1 | 5.3 | 5.4 | 5.4 | 5.3 | 5.5 | 0.3 | 0.3 |

Sources: Foreign Exchange Office and BAM forecasts

Acceleration of credit to the non-financial sector over the forecast horizon

The banking liquidity deficit should narrow to 109.8 billion dirhams by the end of 2024, mainly as a result of the increase in official reserve assets, before rising to 133.6 billion dirhams in 2025 due to the acceleration in currency circulation. After increasing by 10.7 percent in 2023, it should grow by 6.2 percent in 2024 and 8.2 percent in 2025. With regard to bank credit to the non-financial sector, taking into account actual figures, projections for economic activity and expectations of the banking system, it would accelerate to 4.4 percent in 2024 and 5.2 percent in 2025. Under these conditions, and in line with

³ Projections based on forecasts by CRU (CRU Phosphate Rock and Fertilizer Premium Service).

the expected development of the other money supply counterparts, the M3 aggregate should increase by 4.9 percent in 2024 and 5.1 percent in 2025.

For its part, the real effective exchange rate should continue to appreciate in the medium term, albeit with a slight easing, with a rate of 0.5 percent in 2024, after 0.8 percent in 2023, as a result of a level of domestic inflation lower than that of trading partners and competitors, then 0.2 percent in 2025.

Table 7.2: Money supply and bank lending

| Change (in %), unless otherwise indicated | Actual rates | | | | Forecasts | | | Differentials (June/March) | |
|--|--------------|-------|-------|-------|-----------|--------|--------|-------------------------------|------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2024 | 2025 |
| Bank lending to the nonfinancial sector | 5.5 | 4.2 | 2.9 | 7.9 | 2.7 | 4.4 | 5.2 | 0.0 | 0.5 |
| M3 | 3.8 | 8.4 | 5.1 | 8.0 | 3.9 | 4.9 | 5.1 | 0.9 | 0.0 |
| Liquidity surplus or deficit, in billion dirhams | -64.6 | -74.6 | -64.4 | -86.6 | -111.4 | -109.8 | -133.6 | 11.3 | 9.6 |

The budget deficit should stabilise in 2024 before easing in 2025

After reaching 4.4 percent of GDP in 2023, the budget deficit should stabilise at the same level in 2024 before easing to 4.1 percent of GDP in 2025, instead of the 4 percent of GDP forecast in March. These projections take into account the new budget appropriations by the Government of 14 billion dirhams, the new macroeconomic projections of Bank Al-Maghrib and the budget execution by end-April 2024, as well as the integration of the impact of the social agreement in 2025.

In 2024, tax revenues are expected to improve by 7 percent, reflecting increases of 14.2 percent in indirect taxes, mainly reflecting VAT performance, and of 1.6 percent in direct taxes. Non-tax revenues are expected to rebound by 20.6 percent, driven mainly by a 37.6 percent increase to 35 billion in revenues from innovative financing mechanisms and a 39.3 percent increase in revenues from state-owned enterprises. On the expenditure side, ordinary expenditure is forecast to rise by 8 percent compared with 2023, with an 11.8 percent increase in spending on goods and services. This is the result of a 10.8 percent increase in the wage bill, taking into account additional appropriations of 6.5 billion allocated to social dialogue and a 13.6 percent rise in expenditure on other goods and services. Subsidization costs are expected to fall by 42.5 percent, but will be slightly adjusted upwards than in March, taking into account the start of the phasing-out of subsidization for butane gas on 20 May instead of early April. Investment expenditures are expected to fall by 2.7 percent to 107.8 billion, although this figure has been revised upwards since the last forecasting exercise, taking into account the appropriation of an additional amount of 7.5 billion.

In 2025, tax revenues should increase by 5.6 percent year-on-year, reflecting a 7.7 percent increase in direct tax revenues, with rises of 9 percent in corporate tax and 6.4 percent in income tax, and a 3.9 percent rise in indirect tax revenues. Non-tax revenues are expected to rise by 1.4 percent, with a 3.7 percent decline in receipts from state-owned enterprises, while receipts from innovative financing mechanisms are projected to remain unchanged at 35 billion. On the other hand, ordinary expenditure should rise by 6.4 percent, driven mainly by a 9 percent increase in expenditure on goods and services and a 10.7

percent rise in interest costs of debt burden. In particular, the wage bill is projected up 10.4 percent, with an upward adjustment relative to the three-year budget programming in line with the impact of the social dialogue agreement, and expenditure on other goods and services is expected to increase by 6.3 percent. Subsidization costs are forecast to fall by 33.3 percent to 11.5 billion. Investment expenditure is expected to fall by 6 percent to 101.4 billion.

Improvement in the pace of non-agricultural activity in the medium term

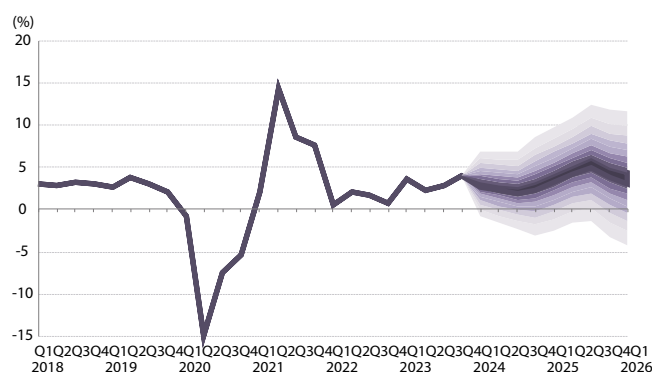
After accelerating to 3.4 percent in 2023, economic growth should slow slightly to 2.8 percent this year, albeit revised upwards by 0.7 percentage points (pp) compared to the projections of March, before rebounding to 4.5 percent in 2025. On the supply side, this trend reflects a contraction in agricultural value added by 6.9 percent in 2024, revised slightly downwards by 0.5 pp, taking into account a cereal harvest of 31.2 MQx according to the Department of Agriculture's estimate, before rising to 8.6 percent in 2025, assuming a return to an average cereal harvest. As for non-agricultural activities, their growth rate should gradually improve, reaching 3.8 percent in 2024 and 4.1 percent in 2025. On the demand side, this development should reflect a consolidation of the domestic component, thanks in particular to a sustained investment dynamic, given the positive spin-offs expected from the various projects underway and the continued consolidation of household consumption boosted by the sharp slowdown in inflation. On the other hand, the contribution of net exports should remain weak over the remainder of the horizon.

Table 7.3: Economic growth

| Change in % | Actual rates | | | | | Forecasts | | Differentials (June/March) | |
|--------------------|--------------|------|------|-------|------|-----------|------|----------------------------|------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2024 | 2025 |
| National growth | 2.9 | -7.2 | 8.2 | 1.5 | 3.4 | 2.8 | 4.5 | 0.7 | 0.2 |
| Agricultural VA | -5.0 | -8.1 | 19.5 | -11.3 | 1.4 | -6.9 | 8.6 | -0.5 | -4.2 |
| Nonagricultural VA | 4.0 | -6.9 | 6.4 | 3.4 | 3.5 | 3.8 | 4.1 | 0.8 | 0.6 |

Sources: HCP data, and BAM forecasts

Chart 7.8: Growth outlook over the forecast horizon (Q1 2024 - Q1 2026), (YoY)*

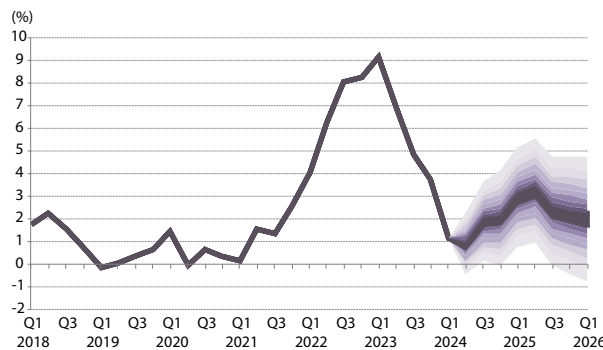


* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Inflation back to moderate levels over the forecast horizon

After the high rates posted in 2022 and 2023, or 6.6 percent and 6.1 percent respectively, inflation is expected to decelerate to 1.5 percent in 2024, a significant downward revision of 0.7 percentage points compared to the March forecast, mainly due to a faster-than-expected fall in the prices of volatile food products and the slight postponement of the cut of butane gas subsidies. In 2025, inflation is expected to accelerate to 2.7 percent. Its core component should slow from 5.6 percent in 2023 to 2.3 percent in 2024, reflecting in particular the fall in imported inflation, and should remain around this level in 2025. Similarly, prices of volatile food products are expected to fall slightly by 1.2 percent in 2024, after rising by 18.8 percent in 2023, mainly as a result of the declines seen at the start of the year. Regulated tariffs are expected to rise by 1.9 percent in 2024 and 4.6 percent in 2025, taking into account the phasing-out of butane gas subsidies.

Chart 7.9: Inflation forecast over the horizon (Q2 2024 - Q1 2026)*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.

Table 7.4: Inflation and core inflation

| | Actual rates | | | | | Forecasts | | | Differentials (June/March) | |
|----------------|--------------|------|------|------|------|-----------|------|-------------------|----------------------------|------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Q2-2024 - Q1-2026 | 2024 | 2025 |
| Inflation | 0.2 | 0.7 | 1.4 | 6.6 | 6.1 | 1.5 | 2.7 | 2.2 | -0.7 | 0.3 |
| Core inflation | 0.5 | 0.5 | 1.7 | 6.6 | 5.6 | 2.3 | 2.3 | 2.3 | 0.0 | 0.0 |

Sources: HCP data, data, and BAM forecasts and calculations.

Chart 7.10: Change in core inflation and output gap

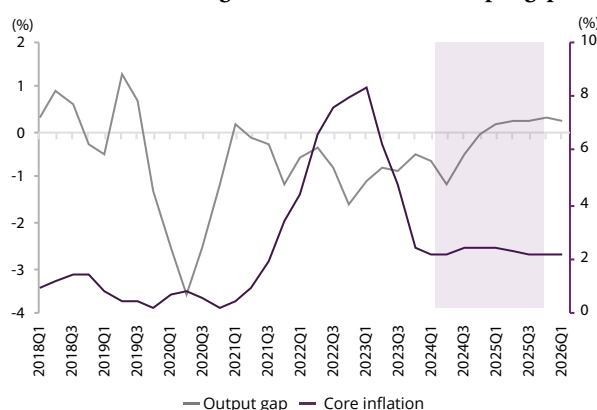
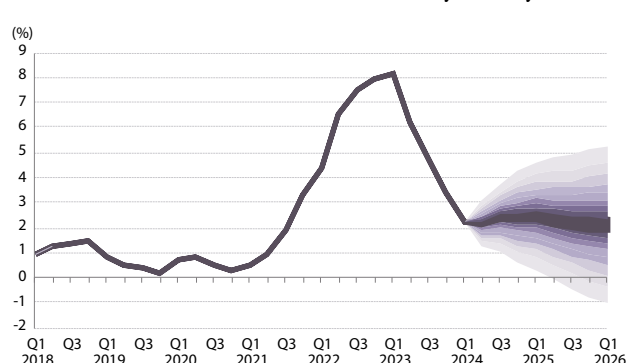


Chart 7.11: Core inflation forecasts, in year-on-year*



* Uncertainty surrounding the central forecast with confidence intervals ranging between 10 percent and 90 percent.
Sources: HCP data, and BAM forecasts and calculations.

7.3 Balance of risks

The uncertainties surrounding the international outlook remain high, especially as 2024 will be an election year in many countries, with the balance of risks tilted to the downside for growth and to the upside for inflation. The continuing conflict in Ukraine and the risk of escalation in the Middle East could lead to a more pronounced slowdown in global economic activity and a disruption in energy supplies, with a consequent rise in commodity prices.

At the national level, the risks to economic activity are mainly linked to the recurrence of droughts and the worsening of water stress in the medium term. On the other hand, efforts aiming to boost investment and the large-scale projects launched or planned by the Kingdom reinforce optimism about a more pronounced pace of economic activity in the medium and long term. As for inflation, the risks surrounding its outlook remain on the upside. In addition to the risks associated with external pressures, the succession of periods of drought and the worsening of water stress could lead to higher food prices and, consequently, keep inflation high.

LIST OF ABBREVIATIONS

| | |
|-----------|--|
| ADB | : African Development Bank |
| AFESD | : Arab Fund for Economic and Social Development |
| ANCFCC | : National Land Registry Office |
| ANRF | : National Financial Intelligence Authority |
| APC | : Professional Association of Cement Manufacturers |
| BAM | : Bank Al-Maghrib |
| BCP | : Popular Central Bank |
| BLS | : US Bureau of Labor Statistics |
| BoE | : Bank of England |
| BPW | : Buildings and Public Works |
| CCG | : Gulf Cooperation Council |
| CIH | : Real Estate and Hotel Credit |
| CMR | : Moroccan Pension Fund |
| CNSS | : National Social Security Fund (Caisse Nationale de Sécurité Sociale) |
| CPI | : Price Consumer Index |
| CPIX | : Core Inflation Index |
| CPIXNT | : Consumer price index of nontradables |
| CPIXT | : Consumer price index of tradables |
| DAP | : Diammonium phosphate |
| DF | : Deposit facility |
| DFI | : Direct Foreign Investment |
| DJ | : Dow Jones |
| DTFE | : Treasury and External Finance Department (Direction du Trésor et des Finances Extérieures) |
| ECB | : European Central Bank |
| EIA | : U.S. Energy Information Administration |
| EMC | : Economic Monitoring Committee |
| ESI | : Economic Sentiment Indicator |
| EU | : European Union |
| EUR | : EURO |
| EUROSTOXX | : Main European Stock Index |

| | |
|--------------------|--|
| FAO | : Food and Agriculture Organization |
| FED | : US Federal Reserve |
| FTSE | : Financial Times stock exchanges |
| GDP | : Gross Domestic Product |
| GFCF | : Gross fixed capital formation |
| GPMN | : Global Projection Model Network |
| HCI | : Household Confidence Index |
| HCP | : High Commission for Planning |
| IBR | : Interbank rate |
| IMF | : International Monetary Fund |
| INAC | : National Institution for Analysis and Economic Situation (Institut National d'Analyse et de Conjoncture) |
| IPI | : Import Price Index |
| IPPI | : Industrial Producer Price Index |
| ISE | : Intermediate-sized companies |
| ISM | : United States' ISM manufacturing index |
| IT | : Income tax |
| Libor-OIS | : London Interbank Offered Rate-Overnight Indexed Swap |
| MASI | : Morocco All Shares Index |
| MEFRA | : Ministry of Economy, Finance and Reform of the Administration |
| MLA | : Moroccans living abroad |
| MMEE | : Mechanics, metallurgy, electricity and electronics |
| MSCI EM | : Morgan Stanley Capital International, Emerging Markets |
| NDS | : Negotiable debt securities |
| OC | : Foreign Exchange Office |
| OCDE | : Organization for Economic Cooperation and Development |
| OCP | : Office Chérifien des Phosphates (Moroccan state-owned phosphate company) |
| OMPIC | : Moroccan Industrial and Commercial Property Office |
| ONEE | : National office of Electricity and Drinking Water |
| ORA | : Official Reserve Assets |
| PLL | : Precautionary and Liquidity Line |
| Private Sector AWI | : Private Sector Average Wage Index |
| REER | : Real effective exchange rate |

| | |
|-------|---|
| REPI | : Real Estate Price Index |
| RULC | : Relative Unit Labor Cost |
| SMIG | : Hourly minimum wage |
| TCU | : Capacity utilization rate |
| TGR | : Kingdom's General Treasury |
| TSP | : Triple Super Phosphate |
| UCITS | : Undertakings for Collective Investment in Transferable Securities |
| ULC | : Unit Labor Cost |
| USD | : US Dollar |
| VA | : Added value |
| VAT | : Value-added tax |
| VSMEs | : Very Small, Small, Medium Enterprises |
| WTI | : West Texas Intermediate |

LIST OF CHARTS

| | |
|---|----|
| Chart 1.1: Change in some leading indicators in the U.S and the Euro Area | 17 |
| Chart 1.2: Change in Euro/dollar exchange rate | 18 |
| Chart 1.3: Change in major stock market indices of advanced economies | 18 |
| Chart 1.4: Change in the VIX and the VSTOXX | 19 |
| Chart 1.5: Change in 10-year sovereign bond yields..... | 19 |
| Chart 1.6: YoY credit growth in the US and euro area | 19 |
| Chart 1.7: World prices of Brent and natural gas-Europe | 20 |
| Chart 1.8: Change in non-energy commodity price indices | 20 |
| Chart 1.9: Change in world prices of phosphate and fertilizers | 20 |
| Chart 1.10: Inflation in the United States and the euro area | 21 |
| Chart 2.1: Automotive sector exports to end April | 23 |
| Chart 2.2: Monthly change in travel receipts..... | 25 |
| Chart 2.3: Monthly change in remittances..... | 26 |
| Chart 3.1: Interbank rate | 27 |
| Chart 3.2: Term structure of interest rates in the secondary market | 28 |
| Chart 3.3: Banks' financing costs | 28 |
| Chart 3.4: Dirham exchange rate | 29 |
| Chart 3.5: Change in the nominal and real effective exchange rates | 29 |
| Chart 3.6: Contribution of the major counterparts to YoY change in money supply | 30 |
| Chart 3.7: Bank credit | 30 |
| Chart 3.8: Contribution of institutional sectors to total outstanding loans | 30 |
| Chart 3.9: Change in supply and demand..... | 31 |

| | |
|---|----|
| Chart 3.10: YoY change in liquid investments and time deposits..... | 31 |
| Chart 3.11: Change in the REPI and in the number of real estate transactions..... | 32 |
| Chart 3.12: Change in MASI index..... | 32 |
| Chart 3.13: Contribution of sectoral indexes in the third quarter 2024 | 32 |
| Chart 3.14: Treasury bill issues | 33 |
| Chart 3.15: Change in outstanding private debt per issuer | 33 |
| Chart 4.1: Main revenue results compared with the Finance Act..... | 36 |
| Chart 4.2: Spending execution compared to the FA | 37 |
| Chart 4.3: Structure of current expenditure | 37 |
| Chart 4.4: Capital expenditure at end-May | 38 |
| Chart 4.5: Fiscal balance at end-May..... | 38 |
| Chart 4.6: Budget balance and financing at end-May..... | 39 |
| Chart 4.7: Treasury indebtedness..... | 39 |
| Chart 5.1: GDP by component..... | 41 |
| Chart 5.2: Private sector average wage index | 42 |
| Chart 5.3: SMIG in nominal and real terms..... | 42 |
| Chart 5.4: Global output-gap..... | 43 |
| Chart 6.1: Inflation and core inflation | 45 |
| Chart 6.2: Price contributions of major components to inflation | 45 |
| Chart 6.3: Brent crude prices and price index of fuels and lubricants | 45 |
| Chart 6.4: Change in the price indexes of tradables and nontradables | 46 |
| Chart 6.5: Contribution of tradables and nontradables to core inflation..... | 46 |
| Chart 6.6: Distribution of price trends for different sections of the CPI..... | 46 |
| Chart 6.7: Inflation short-term forecasts and actual rates..... | 47 |
| Chart 6.8: Business leaders' expectations for inflation over the next three month | 47 |
| Chart 6.9: Inflation expectations by financial sector experts over the next eight quarters..... | 47 |
| Chart 6.10: Determinants of the future evolution of inflation according to financial sector experts.. | 47 |
| Chart 6.11: Main industrial producer price indices, YoY change | 48 |
| Chart 7.1: Growth in the euro area..... | 52 |
| Chart 7.2: Growth in the USA | 52 |
| Chart 7.3: Price of brent..... | 53 |
| Chart 7.4: FAO food price index | 53 |
| Chart 7.5: Inflation in the euro area | 53 |
| Chart 7.6: Inflation in the United states | 53 |
| Chart 7.7: USD/EUR exchange rate | 54 |
| Chart 7.8: Growth outlook over the forecast horizon | 57 |
| Chart 7.9: Inflation forecast over the horizon | 58 |
| Chart 7.10: Change in core inflation and output gap..... | 59 |
| Chart 7.11: Core inflation forecasts, in year-on-year | 59 |

LIST OF TABLES

| | |
|--|----|
| Table 1.1: YoY change in quarterly growth | 16 |
| Table 1.2: Change in unemployment rate | 17 |
| Table 1.3: Recent year-on-year change in inflation in main advanced countries in % | 21 |

| | |
|--|----|
| Table 2.1: Change in exports | 24 |
| Table 2.2: Change in imports by user groups | 25 |
| Table 2.3: Change in the balance of services | 25 |
| Table 2.4: Direct investments | 26 |
| Table 3.1: Treasury bond rates in the primary market | 28 |
| Table 3.2: Deposit rates | 28 |
| Table 3.3: Lending rates | 29 |
| Table 4.1: Current revenues | 36 |
| Table 4.2: Public expenditure execution | 37 |
| Table 4.3: Deficit financing | 38 |
| Table 4.4: Treasury indebtedness | 39 |
| Table 5.1: Key indicators of the labor market | 43 |
| Table 6.1: Inflation and its components | 44 |
| Table 6.2: Change in the price indexes of tradables and nontradables | 46 |
| Table 7.1: Main components of the balance of payments | 55 |
| Table 7.2: Money supply and bank lending | 56 |
| Table 7.3: Economic growth | 57 |
| Table 7.4: Inflation and core inflation | 58 |

LIST OF BOXES

| | |
|--|----|
| Box 1.1: The Chinese economy facing difficulties in the real estate sector | 21 |
|--|----|